

Isle of Wight Council **HIGHWAYS PFI**

Final Business Case (redacted)

May 2012



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Foreword

It is with great pleasure and expectation that we commend this Final Business Case.

The condition of the Island's roads – and the need to improve them – is regularly highlighted by residents as an area of principal concern. That in itself is reason enough to be progressing the Highways PFI Project. But as a catalyst for sustainable economic regeneration, the Project also brings with it other far-reaching benefits for the Island and its residents and visitors.

This document sets out how the Isle of Wight Council has maximised the opportunities offered by what will be the largest and most comprehensive engineering project ever carried out on the Island. It demonstrates our readiness to work in partnership with the preferred bidder to deliver a high quality highways network and associated services – from street cleansing and lighting through to footways and road surfaces - to the Island community.

Throughout the procurement process, the council has sought to identify and maximise every possibility this huge investment to our community will bring. We see the Highways PFI Project as a corporate priority around which our policies will be interwoven for years to come. The Project will touch the lives of all residents – the challenge for us has been to ensure it does so in ways that will benefit them most. That is why we have placed such emphasis on complementing the aims of our Sustainable Communities Strategy, Eco Island, by developing innovative ways of working and by making training and education an integral part of this Project. We believe the maximum economic benefit should be accrued from every single penny of investment the Highways PFI Project will bring to our Island.

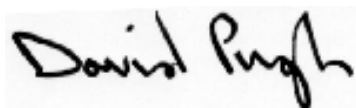
Our challenge is to be fully inclusive - to ensure that the whole community not only understands the implications of the Highways PFI Project but also wants to engage with the project, understand its possibilities and enjoy its benefits. The Project will help define our economic prospects for many years to come. We must remember that those who perhaps stand to gain most from this Project are the next generation, such is the longevity of opportunity, and such is the scope of possibility.

While we as Leader and Chief Executive put our names to this document, we hope that our aspirations will be shared by the whole community.



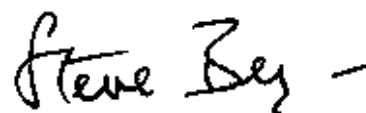
CLLR DAVID PUGH

*Isle of Wight Council Leader
and Cabinet Member for Resources*

A handwritten signature of David Pugh in black ink.

STEVE BEYNON

*Chief Executive
Isle of Wight Council*

A handwritten signature of Steve Beynon in black ink, followed by a horizontal line.

1. Executive Summary

1.1 Introduction

- 1.1.1 The Isle of Wight Council has developed a holistic approach to delivering the Highways PFI Project (the Project), seeking to bring all relevant aspects of highways services within the single delivery PFI mechanism. The Highways PFI Service Provider will upgrade the Island's adopted public highway network between fence to fence along with associated assets and streetscene and will maintain and operate that network throughout the life of the Project. The Project will raise the standard of the highway, offer a better service, improve safety and enhance the street appearance.

1.2 Background

- 1.2.1 The Department for Transport (DfT) selected the Isle of Wight Council (IWC) as one of three "pathfinder" Highways PFI Projects in March 2008. The Island's highway network has suffered from years of under investment and is badly in need of significant investment to bring it to an acceptable standard. Without such major investment, restrictions of the network will continue to grow to a point that the highway network will not be operated in a safe manner. The approval of the IWC's Expression of Interest and Outline Business Case has therefore given the IWC the impetus needed to rehabilitate and operate a safe highway network.

1.3 Strategic Context

- 1.3.1 The IWC and its partners' vision is to make the Island a world renowned Eco Island with a thriving economy and a real sense of pride where residents and visitors enjoy healthy lives, feel safe and are treated with respect. The Island, despite being part of the more prosperous South East region suffers from low

productivity, low wages and low skill levels. The IWC is determined to improve the job opportunities and create a sustainable economy whilst it addresses the failing transport infrastructure. The Project has been developed to align itself with the national, regional and local strategic objectives by placing sustainable development at the heart of the Island's regeneration plans. The Project, in addition to offering a higher standard of highway services, will help to create a significant stimulus to the local economy, offering an opportunity to regenerate parts of the Island and create a rejuvenated highway maintenance related industry on the Island. With an improved transport network and a lower wage based economy, the Island will also be better placed to attract inward investment.

1.4 The Need

- 1.4.1 The Island's highway network has suffered from years of less than required levels of investment. The condition of the roads, footways and street lighting has reached a level where weight and width restrictions are now becoming a regular feature. The Island's roads condition has fallen to below the bottom quartile of all the national highway condition indicators. The Island wide customer survey indicates that the state of the roads is now the biggest concern for residents and visitors. The need to refurbish the Island's highway network is therefore overwhelming.

1.5 Scope

- 1.5.1 The IWC has adopted the "fence to fence" approach to defining the Project in order to achieve considerable synergies and efficiencies in the delivery of highway related services. This approach has enabled the IWC to limit contractual interfaces to the minimum to deliver a holistic service with single point responsibility. The Project will deliver the upgrading and maintenance of the roads, bridges, retaining walls, footways, cycleways, street lighting, CCTV, traffic controls, on and off street car parking, street furniture, grass cutting and street cleansing. The CCTV and off street car parking will be funded by the IWC. The Preferred Bidder has fully embraced the principles of single point responsibility and developed his solution to maximise delivery efficiency.

- 1.6.1 The Project will upgrade the Island's infrastructure and provide a much improved highways service to Islanders and tourists alike. These direct benefits will be derived from smoother carriageways and footways, better lighting and better quality cycleways for cyclists. The softer benefits of safer, clean, well lit streets will have a major impact on building higher self esteem among the local citizens and help to contribute towards shaping a community that is proud to be part of a naturally beautiful Island that has built a sustainable economy around a major investment in its highways. The IWC is working with organisations such as the Isle of Wight Chamber of Commerce, Business Link, and the Solent Innovation and Growth Network to develop the local industries to become ready for delivering the works at sub contractor level. The IWC is also developing its strategy to work with local schools, the Isle of Wight College and local universities to build the Island's skills base to ensure there is enough capability and capacity to support the Project over the 25 year period. The IWC believes developing the local industry and educational base can help to build an Island based workforce to support the Project and retain a very high proportion of the PFI investment within the Island.

- 1.7.1 The Preferred Bidder solution builds on the IWC's holistic approach to delivering highway related services and promises to deliver significant synergies and economies of scale benefits. In addition, the IWC has utilised carbon footprint and water footprint minimisation as part of the selection criteria to emphasise the need for sustainable solutions; the Preferred Bidder has therefore identified opportunities to recycle all of the road planings, use local resources wherever possible to create the resurfacing materials and bring forward energy efficient measures to halve energy consumption in the early years of the Project. This has had the effect of reducing the carbon footprint and also reducing the cost base of the Project. The IWC is determined to produce a highway refurbishment solution that addresses some of the major structural issues of the infrastructure but beyond that, it is keen to take a pragmatic approach to raising the average

condition by classification of road usage. At the lowest level of usage, the level of upgrade will be kept to a minimum to deliver a less invasive treatment, appropriate for the Island's traffic conditions.

- 1.7.2 The IWC has demonstrated, using the DfT's New Approach to Appraisal (NATA), that the project delivers sound economic benefits. In addition, there are a number of non-quantifiable, qualitative benefits which have been captured in the appraisal. The IWC has developed a shadow bid model in line with the HM Treasury methodology to guide its Competitive Dialogue negotiations. The Preferred Bidder's offer has now been compared with the Public Sector Comparator to demonstrate that this Project delivers value for money.

1.8 Affordability

- 1.8.1 The IWC has built up a robust inventory of all its assets and a comprehensive database of asset condition. Using this, it has built a Cost Model which provided the basis for the shadow bid model and was used to benchmark bidders' submissions. The Preferred Bidder's financial submission is in line with the IWC expectations and the current market conditions.

The IWC has considered the impact of inflation over the Contract period and made appropriate provisions to ensure the Project remains affordable throughout its life.

1.9 Programme Delivery

- 1.9.1 The IWC put in place a robust governance structure, a dedicated Project Team led by an experienced Programme Director, supported by in-house professional engineers, accountants, procurement specialists and lawyers to bring together the necessary local highway background and experience. Supporting the in-house team is a strong group of external advisors, who bring a wealth of PFI experience. The IWC has paid particular attention to building a single "integrated project team", setting up a dedicated office where advisors and the IWC staff have worked in a single team.

- 1.9.2 The Programme Director developed a deliverable programme that required a procurement stage budget of £7.6million; this was formally approved by the Council Cabinet and at the Preferred Bidder appointment stage, the Project is being delivered within the allocated budget. The Project Team has worked with the wider Council resources to share their knowledge and skills for the benefit of the Project; the Project has shared its output and outcome with the rest of the council's delivery teams to widen the benefits of any investment. The Project Team that was involved in the procurement phase has built up considerable expertise and is largely being subsumed in to the proposed Contract Management Team structure. The Contract Management Team is already operating in shadow; the key Contract Manager post is due to be appointed in the autumn of 2012, immediately after the Financial Close and he/she will be fully involved in the mobilisation stage.
- 1.9.3 The Project Team has built an excellent inventory and condition database and these were translated into a series of GIS layers. The surveys were repeated during the procurement stages to improve the level of confidence; the bidders carried out the required level of due diligence to assess the accuracy of the data. The Preferred Bidder's own assessment confirmed the high level accuracy of the IWC's database which is now reflected in the Call for Final Tender submission.
- 1.9.4 With the combination of a strong governance framework, adequate resourcing, experienced project leadership, deliverable timescales and an excellent asset base, the IWC has all of the ingredients for successful Project delivery and this has been confirmed by the Preferred Bidder's sound technical, financial and commercial offer.

1.10 Member and Stakeholder Support

- 1.10.1 The Project has strong support; it was initially developed under Island First (a Liberal Democrat/Independent administration) and has continued to progress under the Conservative administration. The Project plays a vital role in supporting all political party aims of creating sustainable employment on the Island.

- 1.10.2 The Council Cabinet approved the Outline Business Case in August 2009. Since then, the Cabinet and the wider Council Members have had regular updates on the progress from the Project Team. The Cabinet has agreed with the recommendation for the appointment of the Preferred Bidder and approved the submission of the Final Business Case to the DfT and HM Treasury. The paper presented to Cabinet in 2009 is attached at Appendix 3. The members of the Cabinet have delegated appropriate authority to the Project Board, the Project Sponsor and the Programme Director to make the decisions leading up to the Financial Close. A report will be submitted to the Cabinet before formally entering into the Contract.
- 1.10.3 The Project has wide support among the Island's stakeholders, businesses, community groups and partners who are aware of the significant social, economic and regeneration benefits the Project will bring to the Island. The IWC staff who are likely to be affected by the Project are regularly briefed and the Highway PFI Project's own intranet site provides regular updates.

1.11 Conclusion

- 1.11.1 The IWC has now developed the Project taking a practical and pragmatic approach to developing an attractive but challenging package that has been negotiated through a Competitive Dialogue procurement process.

The IWC will now work with the DfT and HM Treasury to gain the approval of this Final Business Case within this three month period; simultaneously the Project Team will now set a programme of clarification to finalise the Contract and be ready to reach Financial Close, as soon as this FBC is approved. The Preferred Bidder's team has maintained the spirit of partnership throughout the competitive dialogue process and the Project Team will maintain this spirit of "partnership working" with the ultimate aim of delivering a "win-win" approach to this Project. The Council is now ready to embark on the last stage of the procurement process, following approval of this Final Business Case.

2. Strategic Case

2.1 Setting the Scene for the Isle of Wight PFI

2.1.1 Introduction

2.1.1.1 The Isle of Wight Council (IWC) and its strategic partners have grasped the opportunity to address some of the major challenges that are fundamental for the regeneration of the Island. The IWC is leading the way by implementing both challenging internal reform and modernisation, and external service reforms in the education and highways maintenance sectors. These reforms are driven by the Island's strategy, the Eco Island Vision 2008-2020, for a sustainable community that thrives amidst the natural beauty and surroundings. These reforms have to be accelerated to meet the challenges posed by the funding reduction resulting from the October 2010 Comprehensive Spending Review (CSR).

2.1.1.2 The Highways PFI Project (the Project) forms an integral part of the strategic reform to increase the capability and capacity of the Island and improve its attractiveness for inward investment. The Project is seen as the significant catalyst not just for improving the condition of the highway network, but also to create a road construction and maintenance industry and its supply chain, using local natural and physical resources. The IWC and its strategic partners are working towards an economic regeneration programme, underpinned by the Eco Island vision, to derive significant economic benefits, for example through a multiplier effect from the Project investment over the 25 year life of the contract .

2.1.1.3 The drivers for change stem from overarching national policies which are themselves interpreted at a local level and delivered in partnership with a range of local groups and partners including the Solent Local Economic Partnership (SLEP), Health and Wellbeing Board, and a range of other bodies. Local drivers for change are influenced by a range of plans and policies including the Isle of Wight Community Strategy, the Isle of Wight Economic

Strategy, Island Plan Core Strategy, Local Transport Plan, AONB Management Plan and Shoreline Management Plan. The IWC has a clear vision for the Project which is:

To create an efficient highway network and public realm, providing a sustainable, high quality, value for money service to residents and visitors, whilst acting as a catalyst for social and economic regeneration of the Island.

2.1.1.4 Based on this vision, the IWC has set the following Project Objectives:

- To ensure the provision of a high standard, fit for purpose highway network to meet the needs and aspirations of residents, business and visitors for the movement of goods and people.
- To promote sustainable transport options and initiatives by ensuring the availability and maintenance of the whole highway network, and appropriate traffic management.
- To provide a comprehensive and seamless service for all parts of the highway, fence to fence, both in built up areas and the countryside, with appropriate standards and use of materials to reflect local distinctiveness and character.
- To create a safe highway environment within the context of a well managed public realm/whole street scene.
- To create a highway maintenance industry that acts as a stimulus for the economy.
- To have a holistic approach to a sensitive environment.
- Reduce Carbon and Water Footprint on the Island.
- Drive innovation, integration and efficiencies.
- To minimise risk-pricing by addressing risks such as the inherent geotechnical features on the island.

- 2.1.1.5 The Project has been developed to deliver these objectives by designing an appropriate scope, contract structure and delivery mechanism, and to remain within the affordability envelope.
- 2.1.1.6 The IWC's Project is a unique Project. In an Island context, surrounded by water, there are no overlapping local authority boundaries with neighbours, or a trunk road network that comes under the Highways Agency responsibility. The highway boundaries, ownership and responsibilities are therefore clearer in comparison to any other local authority on the mainland.
- 2.1.1.7 Innovation has always been at the forefront of the IWC's goals during the development of the Project and much has been achieved through the bidders responding to that challenge. The Project's Output Specification (see Appendix C12) was developed to deliver such innovation. Innovation has been particularly linked to sustainability, integration, efficiencies, the protection of the environment and value for money. The latter becoming particularly important following the 28% funding cut through the CSR in 2010. This approach has allowed the IWC to maintain the overall scope of the Project despite the CSR funding reduction.
- 2.1.1.8 The IWC has encouraged a holistic approach to the Island's sensitive environment which is reflected by the Preferred Bidder. This will be achieved by the re-use of materials, careful choice of public realm materials in Conservation Areas and specially designated rural areas such as Areas of Outstanding Natural Beauty (AONB). A Strategic Environmental Assessment along with associated Habitat Regulations Assessments have been prepared to ensure that all environmental considerations are an integral part of the Project.

2.2 Pathfinder Project

- 2.2.1.1 As one of three pathfinder authorities the IWC regularly attends meetings with the other partners, and the Department for Transport (DfT) arranged network meetings to share information. The IWC is keen to work with other local

authorities, universities, professional institutions, including the Institution of Civil Engineers (ICE) and research organisations to share the innovative approach and benefits of the experience gained from the procurement process. To this end, a number of presentations have already been made to the ICE and the IWC is intending to publish a Technical Paper on the benefits of the Carbon and Water Footprint Models.

2.2.2 Local Background

- 2.2.2.1 The Isle of Wight, a diamond shaped island, was separated from the UK mainland by the sinking of the Ancient River Solent during the Bronze Age to become an island in its own right. The Island measures approximately 13 miles by 23 miles along its diagonals and covers an area of 38,014 hectares.
- 2.2.2.2 The Island has a rich history dating back to the Duke of Warwick, the first King of the Isle of Wight, to Charles I being held as a prisoner in Carisbrooke Castle. Queen Victoria's favourite home Osborne House still stands proudly on the Island and remains a popular visitor attraction. The Island is part of the England and Wales Local Authority system and has Unitary Authority status.
- 2.2.2.3 The Island has a unique and important natural environment, which is protected by national and local designations. The majority of the Island is rural in character with isolated farms, hamlets and villages and with over half the area designated as AONB. Much of the coastline is defined as Heritage Coast and the majority of the coast and some inland areas are designated for European and/or International nature conservation of wildlife species and habitats. There is a cluster of five areas designated as the Isle of Wight AONB, 41 Sites of Special Scientific Interest (SSSI), 34 existing Conservation Areas (with more being considered) and 34 kms of Heritage Coast. The Island has over 2000 listed buildings of which 29 are Grade 1, including the historic Osborne House and Carisbrooke Castle.
- 2.2.2.4 Travel to and from the Island is via privately operated and un-subsidised vehicle and passenger ferry services. The vehicle ferry routes are between

Lymington and Yarmouth in the West, Southampton and East Cowes centrally and Portsmouth and Fishbourne in the East, creating pulses of traffic generation onto the highway network. High speed passenger boat services are from Southampton to Cowes, Portsmouth to Ryde and a hovercraft service runs from Southsea to Ryde.

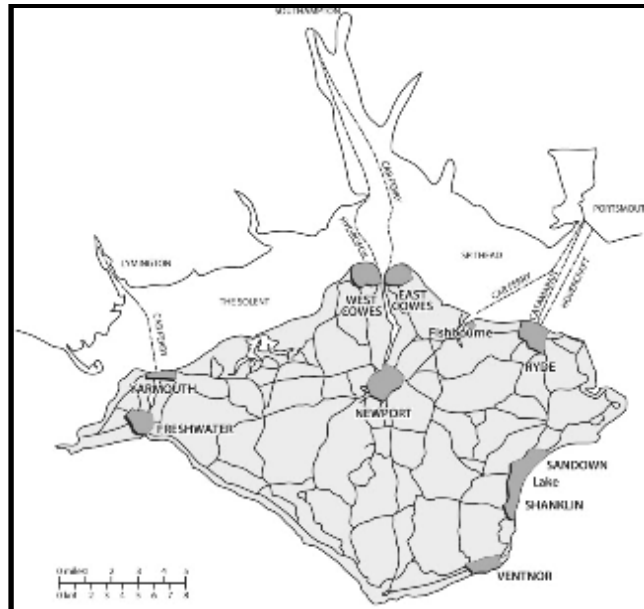


Figure 1 The Isle of Wight

2.2.2.5 The County Town of Newport is centrally located with a primarily radial road network linking the other main settlement areas such as Cowes, East Cowes, Ryde, Sandown, Shanklin and Ventnor, distributed around the coast. There is a coastal road system, linked by the Floating Bridge at Cowes, encircling the Island which is valued by tourists and Islanders alike. The Island has an integrated public bus network, but services are not available in some rural areas. Island Line, part of the South Western Trains franchise, operate the eight and a half miles of passenger railway serving the towns of Ryde, Brading, Sandown, Lake and Shanklin. A leisure steam railway operates between Wootton and Smallbrook.

2.2.2.6 In the absence of a public transport network in some rural areas these communities rely heavily on private transport. The 2001 census data showed that, compared to England and Wales, the Islanders have slightly higher car ownership; some 64,000 cars/vans were recorded in the census, indicating

0.49 cars/vans per person. In addition, there is the daily influx of passenger and heavy goods traffic, to meet the day to day needs of the Islanders.

- 2.2.2.7 The Island's 818 km of road network has become a lifeline for Islanders, playing a vital role in the social, commercial and recreational life of the community. However, the condition of the roads has deteriorated over the years and many roads are no longer fit for purpose. Currently eight roads have weight restrictions whilst a large number have width restrictions. The failing road network is considered to be one of the key factors contributing to a slow down in the economic regeneration of the Island.
- 2.2.2.8 The 2001 census recorded an Island population of 132,731. The Island's population distribution is skewed towards the elderly in comparison to national averages; over 28% of the population were aged 60 years or over, compared with around 20% for England and Wales. At the other end of the scale, those aged 16 years and under were significantly lower at around 18%. The skewed age distribution reduces the proportion of those of working age and consequently reflects on the available pool of economically active citizens, impacting the economy of the Island.
- 2.2.2.9 The public sector is one of the major employers on the Island – namely, the Isle of Wight Council, NHS, the Prison Service and the Police. The Island also supports a number of specialist niche industries – wind turbine research and development, radar, electronics/communications, yacht/boat building, composite and resins, pollution control equipment, Royal National Lifeboat Institution inshore lifeboats, cosmetics and fashion.
- 2.2.2.10 The Island's economy is heavily dependent on the tourist industry and during the summer months the Island's population can double, with total numbers of visitors reaching about 2.7 million each year. This can also lead to traffic volumes doubling during the summer months. The majority of the World's leading yachtsmen and women descend on the Island during Cowes Week. The Island's music festivals, Cycling festivals and Walk the Wight are now nationally famous events attracting many thousands from far afield. It is a

paradise for walkers, cyclists and horse riders. It has over 851km of Rights of Ways traversing through some of most beautiful parts of the Island.

- 2.2.2.11 Whilst the Island sits geographically, within the south-east of England, it does not benefit fully from the region's prosperity. The Island has pockets of deprivation and five wards fall within the 20% most deprived areas in England. The rate of unemployment has continued to reduce from the historical highs of 10% in the mid-90's to currently nearer 4.6% but much of the employment is seasonal, with high dependency on the tourist industry. Recent economic changes have further affected locally based industries causing an increase in the claimant count. The Island has the second lowest average wage in the UK.
- 2.2.2.12 The image of an island full of outstanding natural beauty, buzzing with an influx of tourists in the summer, sits in stark contrast with the huge need for economic regeneration, better employment opportunities, and improved standards of living.



Figure 2 The Needles', Isle of Wight – One of the Islands most popular tourists spots

- 2.2.2.13 The IWC is working closely with the Solent Local Economic Partnership, local stakeholders, business community and others to help support and develop the

Island's economy through regeneration programmes, business critical infrastructure and targeted business support. The Island's economy is well placed, in terms of its environmental assets and background, in renewables, aerospace, composites, tourism and marine related industry and improving the quality of our local transport infrastructure is critical to supporting this.

2.3 Policies, Strategies and Plans

2.3.1 Strategic Policy Context

2.3.1.1 The aims and objectives of the Project are consistent with the national economic, transport and environmental policies, enabling these to be delivered at a local level, in order to achieve the nationally set objectives. The Project is one of the three Highways pathfinder projects and will provide a constructive model for delivering highway maintenance and operations in a largely rural context.

2.3.1.2 The IWC's vision of making the Island a great place to live, work and visit is being achieved through an integrated series of underlying strategies and policies consistent with national and regional policies. In this context, the Project has been developed in line with National and Sub-Regional Strategies and is driven by local strategy and policies as shown in Figure 3 below.

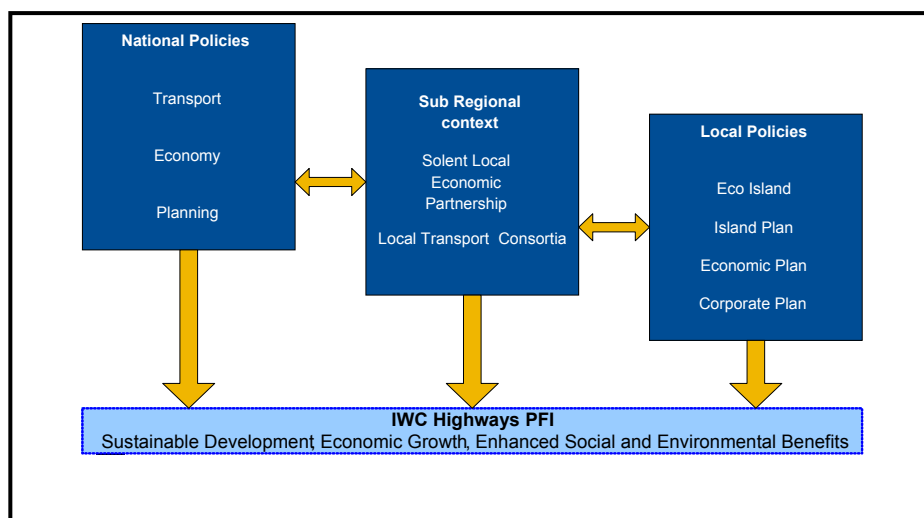


Figure 3 National and Regional Strategies driven by local strategy and policies

2.3.2 National Policy Context

- 2.3.2.1 Successive governments have recognised the importance of transport and its bearing upon a range of other issues including economic development and prosperity, health, education, the environment, climate change and quality of life.
- 2.3.2.2 The Project was conceived under the previous Government's Private Finance Initiative programme. At that time, the 2004 Government White Paper "The Future of Transport, a network for 2030" set out the Government's vision for transport up to 2030. It recognised the need for a transport network that could meet the challenges of a growing economy and the increasing demand for travel, and a network that also achieved environmental objectives. This strategy was built around three key pillars – sustained investment, improvement in transport management, and planning ahead. This means coherent transport networks providing a more reliable and free-flowing service for both personal travel and freight.
- 2.3.2.3 Against the backdrop of the need for long term economic stability, supporting increasing demand for travel whilst continuing to reduce greenhouse gas emission, the Department for Transport announced funding for the Highway Maintenance Pathfinder Programme.
- 2.3.2.4 The 2011 Transport White Paper "Creating growth and cutting carbon" represented a significant step towards meeting the government's two key objectives to help create growth in the economy and tackle climate change. The White Paper identified that this will be done by improving the links that help to move people and goods around and by targeting investment in new projects that promote green growth.
- 2.3.2.5 The White Paper acknowledged the important role that transport plays in supporting economic growth, noting that getting people to work and to services such as education and healthcare providers, as well to leisure activities and shops, is crucial to quality of life as well as to enhancing people's spending

power.

2.3.2.6 The Project will be driving economic growth on the Island and along with the innovative approach taken regarding the reducing of the carbon footprint it aligns with the goals of the White Paper.

2.3.2.7 The Government's Climate Change Bill introduces a legally binding target to cut greenhouse gas emissions by at least 80 per cent by 2050, the most ambitious in the G8, building on plans to deliver a one-third reduction in emissions from 1990 levels by 2020. The planned reduction of the carbon footprint of this Project meets these aims.

2.3.3 Sub-regional context

2.3.3.1 The south east is a major gateway to Europe and beyond and is the most prosperous region in England. Even though the Island is part of this area, it does not share proportionately in its wealth.

2.3.4 Solent Local Economic Partnership.

2.3.4.1 As a founding partner of the Solent Local Economic Partnership (SLEP) established in October 2010 the IWC has been working with Portsmouth and Southampton City Councils for some while on a range of mutually beneficial schemes and initiatives. This allows the Island to actively participate in the wider sub-regional debate. The partnership includes four local universities, the further education sector, three upper tier authorities (Isle of Wight, Portsmouth and Southampton), eight district councils (East Hampshire, Eastleigh, Fareham, Gosport, Havant, New Forest, Test Valley and Winchester) and the voluntary and community sector.

2.3.4.2 Investment in this Project is aimed at strengthening the highways network and transport across the Island to enhance its attractiveness as a place for investment, thereby contributing to its success. The Island has a relatively low cost base and an eco friendly business environment which, with the support of

the SLEP and the Health and Wellbeing Board, is being revitalised through economic regeneration. This Project is an integral part of that regeneration and improvement strategy.

- 2.3.4.3 The IWC is looking to take an active role in the Local Transport Consortia (LTC) which will include neighbouring Local Economic Partnerships. To be designed around functional economic geographies, the LTC will be expected to integrate major scheme transport investment with wider plans for growth and will be the mechanism that will, in the future, guide future transport investment for the area.

2.3.5 Local Community Strategy - Eco Island

- 2.3.5.1 The Island's local strategic partnership is known as the Health and Wellbeing Board which is made up of leading organisations on the Island including the IWC, the Health Authority, the Police, Voluntary and Community Organisations, IW College, the Chamber of Commerce, Business Community and Government Departments. The Community Strategy "Eco Island" sets the vision for the next decade by aiming:

"to be a world renowned Eco Island, with a thriving economy and a real sense of pride, where residents and visitors enjoy healthy lives, feel safe and are treated with respect"

- 2.3.5.2 The four main themes that underpin the strategic vision are:

- Thriving Island,
- Healthy and Supportive Island,
- Safe and Well-kept Island,
- Inspiring Island.

- 2.3.5.3 This Island Vision is being delivered through a series of prioritised policy initiatives and the Project is one of the vital delivery mechanisms for achieving

this vision.

- 2.3.5.4 Through this vision, the Health and Wellbeing Board is committed to protecting and enhancing the Island's natural beauty; creating wealth and reducing carbon footprint; supporting economic development and regeneration; reducing crime and fear of crime, and enhancing how our local area 'looks' and 'feels'. The Project has been developed to support each of these areas.
- 2.3.5.5 The strategy includes a number of Eco Island promises with the overarching priority being that by 2020, the Island will have the lowest carbon footprint in England.

2.3.6 The Isle of Wight Economic Strategy

- 2.3.6.1 The Isle of Wight Economic Strategy 2008 – 2020 supports 'Investing in success to produce a more mixed economy, creating opportunities for increased inward investment and sustainable prosperity by prioritising quality of life.'
- 2.3.6.2 The strategy which is delivered through activities identified in the Economic Development Action Plan, cites the poor condition of the road infrastructure on the Island as one of the key weaknesses for attracting inward investment. This Project is seen as being vital to both cementing and reinvigorating the Island's fragmented highway maintenance industry and providing an attractive and fit for purpose road network.
- 2.3.6.3 The Isle of Wight Local Economic Assessment supports the Economic Strategy and gives the IWC and its partners a robust analysis of local economic conditions to inform economic policies and interventions.

2.3.7 Isle of Wight Council Corporate Plan 2011-2013

- 2.3.7.1 The IWC Corporate Plan 2011 – 2013 is the main strategic planning document which sets out the local authority's focus for the next year. The IWC has

identified eight key priorities as its focus for the next year, which in the main, build on previous priorities and the need to address the budget deficit. These are often described as Strategic Projects, as they all involve significant transformational change. The eight priorities are:

- Raising educational standards;
- Highways PFI scheme;
- Keeping children safe;
- Supporting older and vulnerable residents;
- Housing and homelessness;
- Regeneration and the economy;
- Waste strategy; and
- Delivery of budget savings through changed service provision

2.3.7.2 The Corporate Plan recognises that the Project represents not only a significant investment which will dramatically improve the Island's highways network, but will also act as a catalyst for wholesale benefits to the public realm, local economy and community, through regeneration and development, leading to a range of job opportunities for Island residents.

2.3.7.3 This Project will be an essential part of our ongoing delivery programme as set out in the local transport plan, the Island Transport Plan, and will work to deliver schemes and initiatives, outlined in the Island Transport Plan and Island Plan; together these initiatives will help make the local roads safer, and journeys by foot, cycle and public transport more efficient, effective and reliable. Prior to the start of the Project, the IWC will continue to improve the public realm by investing in local roads, pavements, footpaths and cycle routes.

2.3.7.4 The framework in

2.3.7.5 Figure 4 below shows the strategic link between the Eco Island Strategy, the

IWC's priorities, and the Project. The Output Specification has been designed to ensure the IWC's policies, including Eco Island practices, are delivered through this Project.

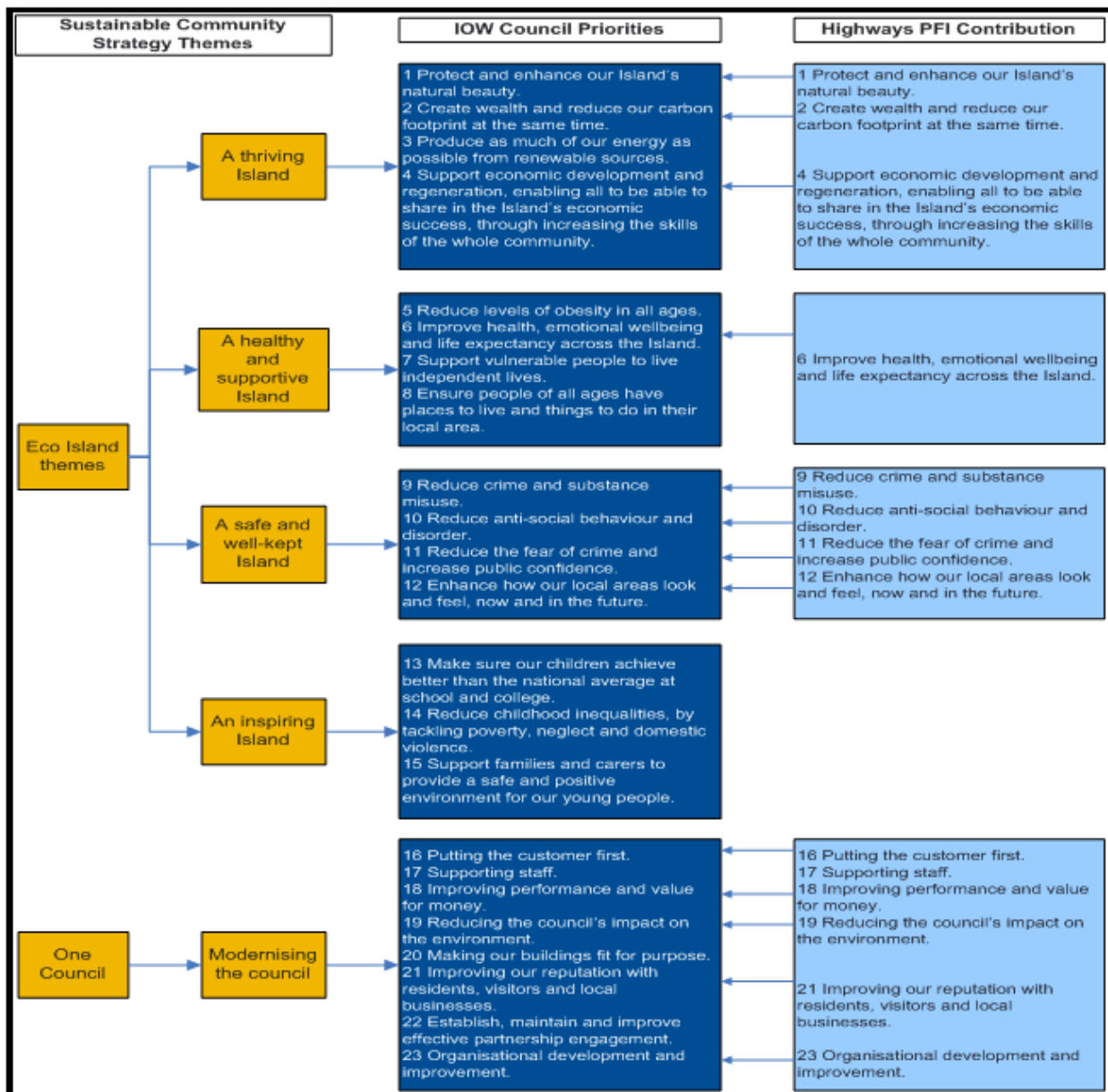


Figure 4 Link between the Eco Island Strategy, One Island Plan and the Highways PFI Project

2.3.8 The Island Plan

2.3.8.1 The Local Development Framework for the Isle of Wight is collectively known as the Island Plan. The Island Plan Core Strategy is used to set the planning

vision and policies for the Island through to 2027. The Core Strategy is the document that sets out how the areas of Eco Island that relate to land use will be delivered.

- 2.3.8.2 The Core Strategy recognises the important role that the Project will play in improving the transport infrastructure for private transport and bus journeys whilst at the same time it seeks to encourage and facilitate travel by sustainable means – public transport (bus and train), walking and cycling.
- 2.3.8.3 The Island is a renowned destination for walking and cycling, not only through celebrated annual events, but also as a realistic, healthy and environmentally sound means to getting around.
- 2.3.8.4 The extensive Public Rights of Way and cycle networks provide the vital routes for sustainable journeys and when combined with the local highways they provide an extensive integrated and interlinked transport network.
- 2.3.8.5 Car ownership on the Island continues to remain relatively high, due in the main to the rural nature of the Island, which places additional reliance on the car for certain types of journey. However, during the summer season the traffic on the Island changes significantly with the influx of tourist traffic.
- 2.3.8.6 The ferry ports, both passenger and vehicle services, are important gateways to the Island. The numbers crossing the Solent for business or pleasure have increased steadily over time and this increase in cross-Solent traffic, coupled with increased car ownership and use, has further added to the transport challenges the Island faces.

2.3.9 Local Transport Plan 2011-2038

- 2.3.9.1 The Island Transport Plan (ITP) is the third statutory Local Transport Plan for the Island. Adopted in June 2011, the plan covers the years 2011-2038 - a timescale deliberately chosen to cover the PFI period. The ITP sets out the IWC's transport "vision" and "goals" for the Island, as quoted below:

“To improve and maintain our highway assets, enhancing accessibility and safety to support a thriving economy, improve air quality of life and enhance and conserve the local environment”

2.3.9.2 The IWC’s transport goals are to:

- Improve and maintain our highway assets;
- Increase accessibility;
- Improve road safety and health;
- Support economic growth;
- Improve quality of life; and
- Maintain and enhance the local environment.

2.3.9.3 The ITP is formed of two parts; an overarching Strategy Element outlines the key challenges to be addressed under each of our goals, sets out our objectives and identifies how IWC will deliver them. The second element, the Implementation Plan identifies how IWC will prioritise the transport spending during the first two years of the plan period (2011-13).

2.3.9.4 The Plan clearly recognises the importance of maintaining and improving the highway network, and the Project is recognised as the only way to bring about much needed improvements to our highway network. Alongside this, the Plan also acknowledges the need to increase accessibility, modal choice and the ability to walk, cycle and travel by public transport.

2.3.10 Transport Asset Management Plan

2.3.10.1 A Transport Asset Management Plan (TAMP) was produced, in partnership with Chris Britton Consultants, during 2006 to aid knowledge based decision making. The highway inventory was initially prepared by John Reid Consultants. This inventory has now been updated twice using directly employed staff and will be updated by the service provider on an annual basis.

- 2.3.10.2 The TAMP is the Council's primary document for detailing the standards and priorities applied to maintaining the Island's transport network for all users. Since it is the Project which will, in the main, deliver those standards and priorities, the TAMP is a policy document for the Project. In future the base for the TAMP will be a Highways Assessment Management Plan (HAMP) which will be updated annually by the Service Provider.

2.4 Environmental Considerations

2.4.1 Strategic Environmental Assessment/Habitat Regulations Assessments

- 2.4.1.1 The IWC has worked with its environment advisors UE Associates to develop a Strategic Environmental Assessment (SEA) and the associated Habitat Regulations Assessments (HRA). The process included consultation and liaising with stakeholders (including the Environment Agency and Natural England who are Statutory Consultees). The Preferred Bidder has confirmed compliance with these requirements in principle, and will work with Natural England and the Environment Agency before Financial Close to gain all necessary consents and permissions. A number of dialogue meetings have been held during the procurement phases between the IWC, the bidders and these agencies to ensure early involvement and buy in.

2.4.2 Area of Outstanding Natural Beauty (AONB) Management Plan

- 2.4.2.1 The Island has a unique and important natural environment, which is protected by national and local designations covering both landscape and ecology to help protect the character of the Island. The Isle of Wight AONB Partnership is a broad based independent organisation with representatives from many local, regional and national organisations and individuals with a direct interest in the AONB. Through delivery of the AONB Management Plan, the AONB Partnership seeks to ensure a co-ordinated approach to the conservation and enhancement of the AONB.
- 2.4.2.2 The minor and unclassified road network and cycleways, are often key features in the AONB landscape. Coastal roads, highway verges and

hedgerows that form the boundary define the contours of the undulating landscape. The Hierarchy 4 roads contain a number of historic signs which form the rural character and lighting in rural areas is managed sympathetically to prevent light pollution. The treatment of the cycleways and the coastal roads in particular, will play a crucial part in preserving the natural landscape and ecology. The management of the natural environment is therefore an integral part of highway management. Both the investment programme and the services of the Project will need to be sensitive to Areas of Outstanding Natural Beauty and the natural environment, through carefully designed Output Specification requirements.

2.4.3 Natural Environment - Species and Habitats

2.4.3.1 The Island is home to a number of rare and endangered species and also to significant and varied areas of sensitive habitats. Works within the boundary of the highway and cycleways have the potential to adversely impact on these, or nearby species and habitats.

2.4.3.2 Whilst the highway surface itself does not form a natural habitat, verges, hedges, banks, ditches and roadside trees contribute to the natural environment. Natural habitats are recognised through a hierarchy of designations from those of local importance such as Sites of Importance to Nature Conservation (SINC), and national Sites of Special Scientific Importance (SSSI), through to European Special Protection Areas (SPA) and Special Areas of Conservation (SAC). There are also the wider international designations such as Ramsar Sites for wetlands and wildfowl, and some species have specific protection under UK or international legislation.

2.4.4 Public Realm

2.4.4.1 The visual impact of highway works can significantly affect the quality and appearance of the public realm. Minimising the visual impact of works is particularly important in designated areas such as AONB's, conservation areas or within the proximity of listed buildings and historic assets. Traditional materials for surfacing, kerbs, structures and other details will be maintained or

replicated.

- 2.4.4.2 In addition there are some remaining traditional street lamps, railings, signs and other structures which make an important contribution to the locally distinctive character of the Island's towns and villages. Any historic street furniture will therefore be recorded and retained.
- 2.4.4.3 Information on statutory requirements and good practice can be found in the Document 'Guidance for Work of the Highways and Public Realm - Considering the Landscape, Natural and Historic Environment' co-ordinated by the AONB Partnership on behalf of the Project.
- 2.4.4.4 The overall quality and appearance of the Island's public realm is important to residents and businesses and directly affects the tourist industry. The use of appropriate design and materials will therefore be given prominence in the Output Specification.

2.4.5 Archaeological Heritage

- 2.4.5.1 The Island has in excess of 6500 known Archaeological Sites and Monuments. In addition there are other Scheduled Monuments and Areas of High Archaeological Potential. It is unlikely that the reconstruction and resurfacing of carriageways will result in disruption of any archaeological site; however, the IWC has set out all known sites to prevent the Service Provider unknowingly encroaching into these areas. Where the refurbishment of the highway is likely to encroach into an identified site, the Service Provider will be required to carry out a comprehensive assessment and develop appropriate mitigation measures.

2.4.6 Historic Environment Action Plan (HEAP)

- 2.4.6.1 The HEAP contains the historic roads, tracks and lanes and their associated boundaries, hedgerows and earthworks. These are described in the "Historic Routeways" HEAP report. The HEAP requires early liaison with the County

Archaeology Service, the Conservation and Design Team and the AONB Unit to ensure that any work does not have an adverse effect on the historic environment. These requirements form part of the Output Specification and the Service Provider will carry out any required consultations.

2.5 The Project

2.5.1 Project Description

2.5.1.1 The Project follows the “fence to fence” concept to develop a holistic approach to highway maintenance, and provide the best fit with the Island’s strategic aims for sustainable development. Furthermore, the Project aims to achieve the IWC’s ambitions for providing a transport network that will both raise the condition of the highway to a stable level and act as a stimulus for the Island’s economy. It focuses on the key elements of the highway with an intention to improve the current network condition to a level which enables the lifecycle replacement to be carried out at a consistent level. This will sustain the network at a steady state thus reducing the need for reactive and emergency preventative maintenance, and providing the most economical solution. This holistic approach helps to create synergies and avoid contractual boundaries with third parties within the “fence to fence”. Through the output based specification the Service Provider has the responsibility to carry out all contracted works and services with the minimum of IWC supervision thereby enabling the Contract to be managed and monitored effectively.

2.5.2 Project overview – meeting the wider objectives

2.5.2.1 The regeneration of the Island’s economy is an important driver for the Project and therefore the Contract was framed to take this into account. By the requirement for a Carbon Model, see paragraph 2.5.14, bidders have had to investigate the use of local resources. The “fence to fence” approach, with the associated wide scope of various disciplines, gives local industry potential work in a great many areas.

- 2.5.2.2 During dialogue, emphasis was placed on the necessity for the development of an Island educational skills base and introductions to the 14 to 19 Partnership Consortium, as detailed in paragraph 6.14.2, were made to the bidders. The Preferred Bidder has plans to work with schools, colleges and other educational establishments to encourage students to enrol on courses that are appropriate to the skills needed for the Project. They also have a planned apprenticeship and graduate programme.
- 2.5.2.3 The 25 year Project consists of a 7 year Core Investment Period (CIP) to refurbish the Project Network to an improved standard and a further 18 year Lifecycle Replacement period when that standard will be maintained. The Preferred Bidder will also operate and manage the Project Network over the full duration of the Contract including winter, cyclic and routine maintenance.
- 2.5.2.4 From the inception of the Project, the IWC has encouraged Island contractors and suppliers both through engagement with the Chamber of Commerce and by arranging a Local Industry Day where opportunity was given for local businesses to talk to the bidders.
- 2.5.2.5 With an economic reliance on the tourist industry a seven year CIP has been set in order to minimise disruption during the busy tourist seasons.
- 2.5.2.6 An Availability Matrix has also been developed to control traffic delays during the CIP and Lifecycle works. More detail of the Availability Matrix can be found in Paragraph 5.2.4.2 of the Financial Case.
- 2.5.2.7 The Project has split the Island into 6 Districts, see Figure 5 below. There is a requirement to upgrade them equally during the CIP period to achieve the same standards across the Island.



Figure 5 - The 6 Districts

2.5.3 Project Scope

- 2.5.3.1 A high-level summary of the Project scope is described below. Appendix S3 sets out the full details of the scope and the IWC retained services.

2.5.4 Carriageways

- 2.5.4.1 The Island's 818 km of rural and urban roads that are currently being managed publicly, form part of the Project Network. These include the A, B and C classified roads and the unclassified roads, which have been designated into four hierarchies (H1 to H4) based on traffic flows, to ensure the treatments chosen are correct. The scope includes refurbishment of all classifications of publicly maintained road network including kerbs and footways, such that the development of Category 1 defects is arrested and the general condition of the Network is raised to position the Isle of Wight's highway network at the upper quartile level of Local Authorities when assessed in accordance with National Indicators

2.5.5 Footways and Cycleways

- 2.5.5.1 The urban roads and town centres have an extensive network of footways, while surfaced "off road" cycleways follow the line of redundant railways. As part of the CIP works, the footways and cycleways will be upgraded to provide an acceptable structure and surface, minimising the current defects to reduce the risk of third party claims. The combination of footway renewal with the

carriageway renewal offers the opportunity to have a single upgrade programme, which will resolve utility diversions and address drainage issues at the same time.

2.5.6 Structures

- 2.5.6.1 All of the 209 bridges and 621 retaining walls at present maintained by the IWC are included in the scope. These include bridges that pass over Network Rail, Isle of Wight Steam Railway, and Environment Agency land.

2.5.7 Street Lighting

- 2.5.7.1 The Network has 11,934 street lights and 1686 illuminated signs or bollards which will be renewed and maintained for the duration of the Contract. The Output Specification follows current codes of practice and requires the application of modern technology, such as remote switching and energy saving equipment and design.

2.5.8 Street Furniture

- 2.5.8.1 The Island's roads contain compulsory, directional and tourist signs, roadside seating, bus shelters and roadside planters. During the CIP, signage will be upgraded to current standards. As appropriate, other assets will be kept available for use, clearly visible and in a good state of repair. The Preferred Bidder has provided a palette of local treatments and types of street furniture which will be used to enhance the street scene especially in urban Conservation Areas.

2.5.9 Traffic Signals

- 2.5.9.1 The Island has 79 sites of traffic signals (36 junctions & 43 pedestrian crossings) that help to control traffic flows at some of the major junctions. All sites are monitored remotely with a fault management system for automatic identification of faults; any new installations within the last few years have used Extra Low Voltage (ELV) controllers, LED signal heads and are low

power / low carbon.

2.5.10 CCTV

- 2.5.10.1 The CCTV cameras are mounted on special masts or lighting columns, both of which fall within the Project's "fence to fence" boundary. The power required for CCTV comes via lighting columns, and synergies in the maintenance of the CCTV and street lighting are likely to result in operational cost savings. CCTV is therefore included within the Project scope and assumes replacement of all cameras after a 10 year life. The CCTV cameras and control room will be used mainly to operate the network along with crime reduction and emergency management.

2.5.11 Grass Cutting and Street Cleansing

- 2.5.11.1 The "fence to fence" approach allows all services that need to be carried out on, and adjacent to, the highway to be synchronised, deriving maximum efficiency in service delivery. As all services are controlled by one party grass cutting can be integrated with street cleansing and drain cleansing.

2.5.12 On and Off-Street Car parking

- 2.5.12.1 The "fence to fence" approach lends itself to including on and off-street car parking assets as part of the Project. The off-street car parks are an extension of the highway network, using similar material to the highways. There are therefore scale and efficiency benefits to be gained by including the capital and maintenance elements of off-street car parks within the Project scope. The off-street element, including meters, will be funded by the IWC.

2.5.13 Geotechnical Schemes

- 2.5.13.1 The Isle of Wight has a unique geology and as a result there have been a number of geological and geotechnical failures in parts of the Island. The areas of concern are well known and are generally along the south coast of the Island (Military Road, Undercliff Drive and Ventnor in particular) and in the

north west, either side of Yarmouth (Bouldnor Road being the most affected). The majority of the sites are on strategically important roads where closure is not an option, as this would significantly affect tourism, local businesses and traffic routing.

2.5.13.2 To ensure Value for Money bids, IWC decided to take a risk-sharing approach to sections of roads that are in geologically unstable areas, or built with poor geotechnical foundations. Firstly, these sites were identified and mapped, using a combination of the technical advisors, geotechnical expertise and local knowledge. They were then risk assessed to determine the chance of failure during the 25 year contract duration and split into two categories:-

- i) 18 Red Sites where they have potential to fail.
- ii) 18 Amber Sites which have a lower probability of failure.

2.5.13.3 The risk-share approach sets out the maximum Service Provider expenses for both Amber and Red risk sites. For Red Risk Sites bidders were required to provide either a short or a long term geotechnical solution within the “fence to fence” limits of the Project. The bidders were given an “economic benefit” through a negative NPV against the bid cost using a published methodology to incentivise the adoption of a long-term solution.

2.5.14 Carbon and Water Footprint

2.5.14.1 Carbon and Water Footprint Calculation Tools, a first for use in procurement for a PFI project, have been developed by the IWC to deliver the Eco Island ambitions at a practical level. The use of the Carbon Tool has forced bidders to adopt 100% recycling of carriageways and footways so reducing the demand for aggregates. These have also driven energy savings by the use of LED lighting with a Central Management System, allowing dimming and trimming of the street lights.

2.5.14.2 The Tools were used by bidders to “bid back” their proposed consumption. The Preferred Bidder consumptions will form part of the Contract and will be

monitored as described in the Payment Mechanism (see paragraph 5.2.4). The Preferred Bidder's solution has resulted in:

- a significant reduction in planned carbon and water usage;
- innovative solutions that have been driven by the aim of reducing carbon and water, for example the reuse of materials, use of alternative fuels and rainwater harvesting techniques at the depots and office and for drainage scheme solutions;
- a reduction in plant and material transportation costs;
- incentive to explore the use of local resources; and satisfying the aspirations of the Eco Island Themes.

2.5.14.3 The Carbon Tool and guidance is attached at Appendix S5. The Water Footprint Tool and guidance is attached at Appendix S6.

2.5.15 Central Control Room

2.5.15.1 The IWC set out requirements for the bidders to develop a Central Control Room (CCR) to operate CCTV, Street Lighting Central Management System (CMS), Traffic Signals, Remote Operation of Yar Bridge and the Newport Urban Traffic Control System (UTC). The purpose of the CCR is to ensure an integrated approach to the management of the highway network which will drive efficiencies and ensure optimum performance on the Network. The CCR will be made available to the emergency services on the Island in the event of a significant Highway or Civil Emergency event and has the potential to become the Island's Emergency Control Centre.

2.5.16 Management Information System

2.5.16.1 The Management Information system (MIS) developed by the Preferred Bidder has used the latest technologies to deliver the most cost-effective and efficient management control and is flexible to accept future technological advances. The requirements of the MIS can be found in PS10 of the Output Specification

contained at Appendix C14. The Preferred Bidder's MIS will contain the latest Geographic Information System Software (GIS) to assist the management of the assets on the Network, and a Global Positioning System (GPS) to track vehicles and capture information such as carbon usage. The system will provide a variety of reports as required in the Output Specification to assist the IWC's Contract Management Team to monitor the contract. The MIS is a web based reporting tool and allows remote working. Hand held devices, such as the next generation tablets and PDAs, will be adapted by the Preferred Bidder to utilise the MIS effectively in reducing manual handling of large volumes of data.

2.5.17 Technical Method Statements

- 2.5.17.1 The IWC has set out its technical requirements in the Output Specification (see paragraph 4.4.4). The bidders were required to describe their technical approach to delivering the Project in a series of Method Statements. These Method Statements were structured around service area themes and formed a key part of the bidder submissions at each of the procurement stages.
- 2.5.17.2 The contents of the Method Statements were further developed by the bidders during the Competitive Dialogue process. Each Method Statement was evaluated and scored by experts from the IWC and/or consultants in the appropriate technical field.
- 2.5.17.3 The Method Statements will become contractual documents and will be monitored by the IWC and the Independent Certifier (IC) (see paragraph 4.4.12) where appropriate for compliance.
- 2.5.17.4 Figure 6 below lists the twenty-one Method Statements:-

Method Statement No	Title
No1	Mobilisation
No 2	Demobilisation and Hand back
No 3	Call-off Services
No 4	Core Investment Lifecycle and Capital Scheme Design
No 5	Inspections, Surveys, Assessments and Monitoring
No 6	CIP, Lifecycle and Capital Scheme Works
No 7	Horticulture
No 8	Street Cleansing
No 9	Procurement and Management of Energy
No 10	Management of Carbon and Water
No 11	Winter Services
No 12	Network Standard
No 13	Network Management
No 14	Network Performance
No 15	Plant, Equipment and Materials
No 16	Contract Management and Customer Interface
No 17	Strategic Assistance And Authority Working Practices
No 18	Quality Management
No 19	Health and Safety
No 20	Independent Certification
No 21	Independent Checking

Figure 6 - The 21 Method Statements for the Project

2.6 The Assets of the Project Network

2.6.1 The Project Network

2.6.1.1 The IWC has mapped, in GIS format, the entirety of the Project Network. The Project Network has been sub-divided into specific Project Network Parts.

2.6.2 Project Network Parts

2.6.2.1 The following assets make up the Project Network Parts:-

- Carriageways (818km in length)

- Cycleways (30 kms)
- Bridges and Structures
- Footways and Kerbs and channels
- Road Markings
- Earthworks
- Drainage including pump installations
- Safety Fencing
- Street Lighting including illuminated signs and bollards
- Traffic Signals
- Street Furniture
- CCTV
- Grass Cutting
- On/Off Street Car Parks

2.6.3 Hierarchy of Road

2.6.3.1 The IWC currently operates the universal A, B, C and Unclassified road clarification for its road network. This, however, does not reflect the actual volume of usage and if this classification is used as the basis for the Project upgrade, it would not result in optimal solutions.

2.6.3.2 The road network on the Island has therefore been reclassified, using annual average daily traffic flows, into four hierarchies as follows:

- Hierarchy 1 (H1) >10,000 vehicles (AADT)
- Hierarchy 2 (H2) 5-10,000 vehicles (AADT)
- Hierarchy 3 (H3) 2 – 5,000 vehicles (AADT)
- Hierarchy 4 (H4) <2,000 vehicles (AADT)

2.6.3.3 The reclassification allows better matching of required carriageway standards

to actual vehicle usage. The carriageway condition standards are set by the use of Wight Carriageway Condition Index (for details of methodology see Appendix S2).

2.6.4 Asset Inventory, Condition and Survey Data

2.6.4.1 The IWC recognised the importance of a comprehensive asset database for the delivery of a successful Project and developed a Project Data Room (see paragraph 6.9.1) to provide bidders with full and accurate quantitative and qualitative information on all assets on the Project Network. This has been commended by the bidders and in particular by the Preferred Bidder and the Technical Advisers for its Funders.

2.6.4.2 The information is fully digitised and held in layers linked to an in-house Geographic Information System (GIS) and is available in the Project Data Room. A Pre-Commencement Survey of the Project Network was completed on 31 October 2011 and this defined the condition of the Network that the Service Provider will inherit; deterioration after this date is the risk of the Service Provider. The IWC will continue to maintain the network by spending an average of £225k per month in operating and monitoring the Network until Service Commencement. The IWC will also continue to survey assets and maintain records up to the point at which responsibility is handed over to the Service Provider.

2.6.4.3 The asset inventory information available in the Project Data Room is outlined below:

- A defined boundary of the whole of the Project Network and the Project Network Parts
- A detailed inventory of all bridges and retaining walls supported by six-yearly Principal Inspections (PIs) and bi-annual General Inspections (GIs) of all structures on the highway network. Complete data for the last three rounds of both PIs and GIs is kept in the Data Room
- A full inventory of all street lighting points and illuminated road signs/

bollards and CCTV

- A drainage inventory made up of surface features, gullies and manholes and partial information on underground features such as pipe locations and sizes. The sub-surface inventory is about 60% complete but with an accuracy of 90+%. Some "poor" condition drains have CCTV footage coverage
- Car parking inventory data on the primary assets, including ticket machines, the number of parking spaces (on and off-street), their locations and type of surfacing
- Full inventory data for all other assets including:

- iii) Traffic signals (with age profile data);
- iv) Road signs and street nameplates;
- v) Street furniture (bollards, benches, bins, shelters, planters);
- vi) Safety fencing; and
- vii) Highway trees.

2.6.4.4 A summary of the highway assets is set out in Appendix S1

2.6.4.5 The following information on asset condition is also available in the Project Data Room;

- A video of the entire Network is available from SCANNER. This provides additional information to the basic numerical data, and enables a view of the Network without having to drive it
- SCRIM survey data for Hierarchies 1,2,3 & 4 roads measured annually
- Annual SCANNER survey data for all four Hierarchies of roads
- 100% Detailed Visual Inspection (DVI) data for all categories of cycleways, footways and H4 roads which cannot be surveyed by SCANNER for the last year along with historic data for footways
- Deflectograph data for all A class roads, up to 2008

- A full inventory and condition data of kerbs, channels (solid and linear drainage), edgings, street furniture, road signs, safety fencing and bollards

2.6.5 Street Lighting

2.6.5.1 There are 11,934 street lighting columns and 1,686 illuminated signs and bollards on the network and details of the materials and age profile of the columns is shown in the table in Figure 7 below.

Age	Steel	Conc	Alum	Wood Pole	Cast Iron	Other	Total	Profile
0-10 Years	3371	0	0	182	0	10	3563	29.86%
10-20 Years	3208	0	11	142	21	12	3394	28.44%
20-30 Years	1118	91	404	290	22	57	1982	16.61%
30-40 Years	179	203	1295	322	13	17	2029	17.00%
40-50 Years	24	100	753	41	3	3	924	7.74%
>50 Years	0	0	4	0	38	0	42	0.35%
Total	7900	394	2467	977	97	99	11934	
Profile	66.20%%	3.30%	20.67%	8.19%	0.81%	0.83%		100%

Figure 7 – Current age and stock profile of the street lighting asset.

2.6.5.2 The Street Lighting and Illuminated Traffic Signs Inventory indicates that 3% of the electrical supply network consists of private cable network. The remaining 97% of the electrical supply network is provided by the Distribution Network Organisation (Southern Electric). Any column less than 10 years old has been designated as Deemed to Comply and does not require replacement during the CIP. The principle of one for one replacement has been adopted to minimise the investment and to ensure that the lighting levels remain as at current to prevent excessive light pollution.

2.6.6 Traffic Signals

2.6.6.1 The IWC has assessed the condition of the Traffic Signals throughout the Island to determine the level of refurbishment/upgrading required. The

assessment indicated that the some of the units are in poor condition.

Age	Sites	Sites Profile	Signal Points	Signal Profile
0-10 Years	46	58%	289	73%
10-20 Years	33	42%	101	26%
20-30 Years	0 2	0 %	6	1%
30-40 Years	0	0%	0	0
40-50 Years	0	0%	0	0
Total	79	100%	392	100%

Figure 8 - Current age and stock profile of the Traffic Signals

2.6.6.2 Figure 8 sets out the age profile of the Traffic Signals.

2.6.7 CCTV

2.6.7.1 The IWC has assessed the condition of the CCTV stock across the network to determine the level of refurbishment/upgrading required. A CCTV refurbishment scheme was implemented during 2009. Further work is necessary as part of the CIP to bring the system up to the latest standards and provide the Island with a suitable system. All existing equipment will be available for the Service Provider to transfer into the control room that will be in operation as part of the Contract. This aspect of the Project is funded by the IWC.

2.6.8 Current Service Delivery and Performance

2.6.8.1 The majority of the IWC's highways related services are managed from Newport, the exception is the Street Lighting depot and office at Ryde. Most of the professional, technical, administrative and financial functions are carried out in-house with only a small amount of backup from technical consultants.

2.6.8.2 In relation to works, the IWC acts as a commissioning agent and no longer has a direct labour organisation. Construction and maintenance work is carried out through annual or framework contracts. Performance is monitored by a combination of National and Local Performance Indicators. Service

performance is good regarding cyclical maintenance, such as highway verge maintenance and street cleansing. However, national indicators show the Island is generally in the bottom quartile on asset condition.

2.6.9 Current Spending on the Islands Highway Assets

2.6.9.1 Following years of less than adequate investment in the Island's Highways Assets, the rate of deterioration has outstripped the rate of investment, resulting in continually declining standards of service. The service delivery average costs are below and exclude IWC staff and overhead costs. The current levels of annual spend capital on carriageways and structures have averaged around £3.69m a year over the last four years. The average routine maintenance, including year on year "patch and mend" budget has averaged around £2.36m a year over the last three years. Spend on Traffic signals has been negligible. A significant level of spend was made on the CCTV system, including the Control Room in 2009, averaging over three years at £0.41m per annum. The lighting stock has remained static over the last decade and the renewal of the lighting columns has averaged around £0.18m per annum. The annual energy cost for street lighting and signs is £0.44m per annum. The IWC renewed the winter maintenance contract and the new contract has had to manage and deliver winter service over two unusually severe winters during 2009/10 and 2010/11 and the average annual cost of winter maintenance over the last three years is £0.51m per annum.

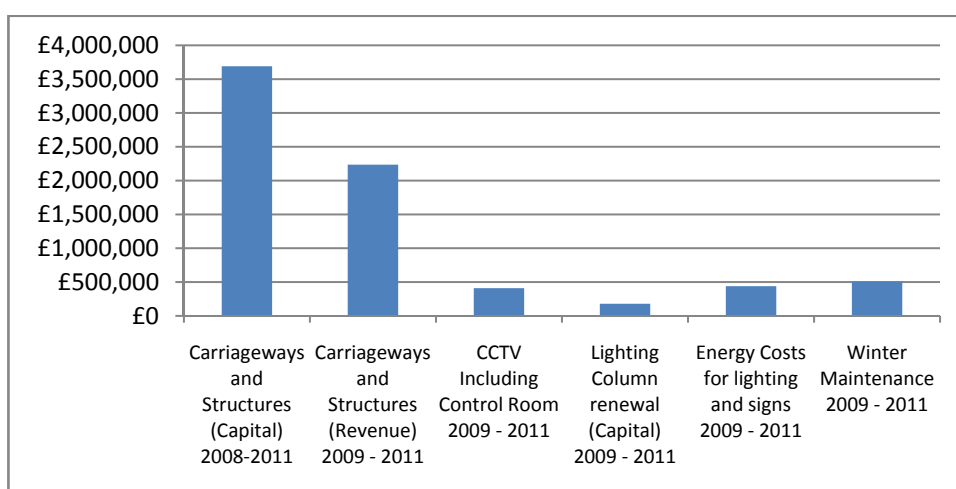


Figure 9 – Current average spending on the Island's Highway Assets 2009 to 2011*

*Carriageways and Structures – Capital shows spend from 2008 to 2011

2.7.1 The Service Gap

2.7.1.1 The IWC's statutory duty under the Highways Act 1980 to maintain the highway network means that it is essential to provide a highway maintenance service for the foreseeable future and maintain the level of service provided at the appropriate level such that the network does not deteriorate. Over the last few years, highway related claims have increased due to the current condition of the network and therefore the investment is necessary to ensure value for money.

2.7.1.2 The "Well-maintained Highways - Code of Practice for Highway Maintenance Management" commissioned by the UK Roads Liaison Group in 2005, declares that the purpose of highway maintenance is to maintain the highway for the safe and convenient movement of people and goods. The core objectives of highway maintenance are stated as the delivery of:

- Safety;
- Serviceability; and
- Sustainability.

2.7.1.3 The six most significant elements of work on the IWC's highway network are:

- Carriageways including Geotechnical Schemes
- Footways
- Bridges and other structures
- Street lighting
- Drainage
- Car Parks
- Integration and improved efficiency of services

- 2.7.1.4 The differences between the current and desirable positions (i.e. the "Service Gap") for each of the three core objectives (see paragraph 2.3.1.2) in relation to the most significant elements of work on the IWC's highway network are described below.
- 2.7.1.5 The current highway condition is collected in a similar manner to that described in Performance Standard 2 (Survey and Inspections) of the Output Specification and is in the lower quartile of the national condition. Therefore, Performance Standard 4 (Network Standard) has been set to enhance the condition of the highway so that at the end of the CIP the average condition of the network moves up to the upper quartile.
- 2.7.1.6 The proposed CIP upgrade works have been assessed by the bidders using the survey data provided by the IWC. The Output Specification has been defined such that it meets the standards of the Design Manual for Roads and Bridges, to achieve compliance with the requirements of Well Maintained Highways, Management of Structures and Well Lit Highways.
- 2.7.1.7 The Island's highway network stands alone and does not allow traffic to divert across boundaries into another authority area. Because of this, the successful completion of the CIP upgrade needs to be planned to prevent the Island's traffic coming to a halt. The IWC has therefore developed an Island wide Traffic Model and made it available to the bidders to model their CIP upgrade programme. (See Appendix S4 for details of the Traffic Model). A seven year CIP was chosen following the IWC modelling of potential delays caused by the works for five, six, and seven year CIP durations.
- 2.7.1.8 The Island relies heavily on the tourist trade for economic survival. Within the contract documentation, constraints on times of working during the peak holiday periods are contained in an Availability Matrix (See paragraph 5.2.4.2 of the Financial Case) with the aim of avoiding traffic delays and in particular in the vicinity of major events such as Cowes Week and the two main music festivals.

- 2.7.1.9 The Output Specification for the post-CIP period requires steady state maintenance of all assets at the required condition achieved by the CIP investment.
- 2.7.1.10 All three bidders developed carriageway and footway models with associated palettes of treatments to achieve the required condition indices upgrade.
- 2.7.1.11 The specific service gap condition for each asset and the work required to bring the asset up to the required standard, are detailed below.

2.8 Carriageways

2.8.1 Current Condition

2.8.2 Safety

- 2.8.2.1 The safety of carriageways can be quantified by surface skid resistance and number of carriageway insurance claims by third parties. The skid resistance of Hierarchy 1, 2 & 3 roads is surveyed annually; Figure 10 below shows the measured values for 2010/11.

Hierarchy	2010 Deficiency %
Hierarchy 1	53.27%
Hierarchy 2	39.11%
Hierarchy 3	27.57%

Figure 10 –measured values for 2010/11 Skid Resistance

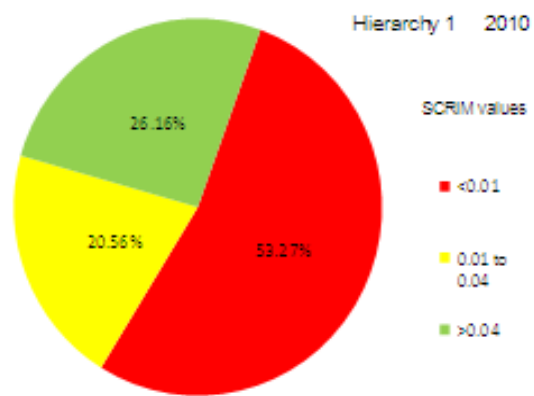


Figure 11 - Scrim deficiency 2010 For H1

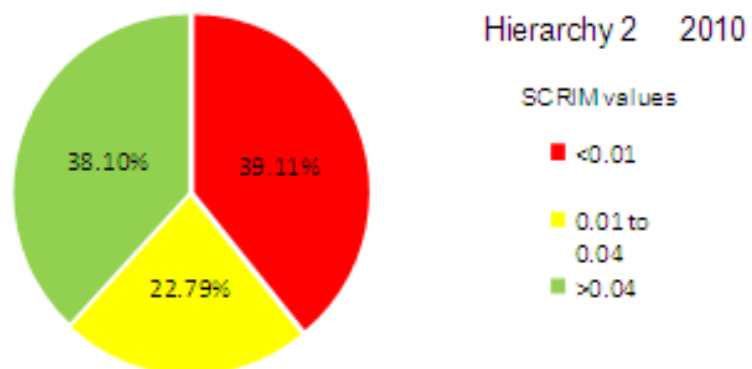


Figure 12 - Scrim deficiency 2010 For H2

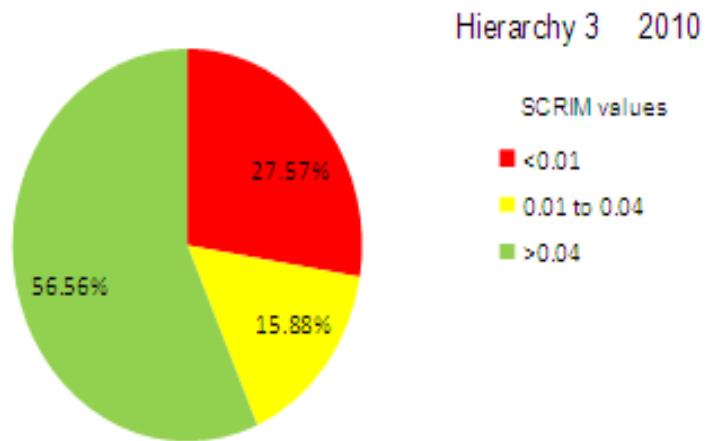


Figure 13 - Scrim deficiency 2010 For H3

2.8.3 Third Party Claims Relating to Carriageway Defects

2.8.3.1 The number of third party insurance claims relating to carriageway defects increased by a factor of eight in the past five years, as shown in Figure 14 below. These figures are subject to variation as a result of any presentation of claims which are sometimes withdrawn later in the process.

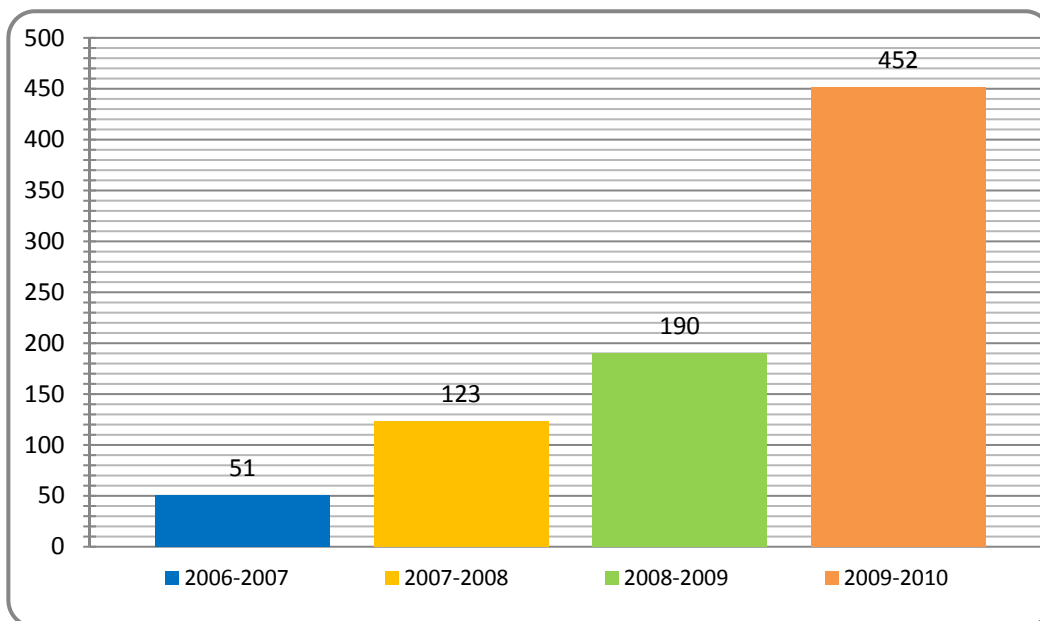


Figure 14 – Number of carriageway personal injury and/or damage claims per year

2.8.3.2 Interrogation of the present Highway Management System has shown the number of instructions to attend highway emergencies, due to urgent carriageway defects, such as potholes has increased by a factor of five in the last four years indicating the increase in rate of deterioration.

2.8.4 Serviceability

2.8.4.1 The serviceability of carriageways can be quantified by

- asset condition; and
- ride quality (e.g. smooth, pothole free surface).

2.8.4.2 Asset Condition: Until 2008/09, the general condition of carriageways was measured and compared nationally using a series of BVPIs which indicate the percentage of the network where structural maintenance should be considered.

2.8.4.3 Figure 15 shows the 2007/08 BVPI results for the Island in comparison with the top and bottom quartile thresholds for that year.

2.8.4.4 The IWC results mostly fall into the bottom quartile for both Unitary Authorities and all English authorities which has driven the IWC in its bid for the Project. Ride quality is also a problem and this is displayed by the three metre and ten metre straight edge readings from the SCANNER surveys. The IWC has taken the elements measured by SCANNER and developed an index known as the Wight Carriageway Condition Index (WCCI) for monitoring the condition of the carriageway during contract conditions. This is explained in full detail in Appendix S2.

Performance Indicator		IWC Actual 07/08	Unitary Authorities		All England	
Ref	Description		Top quartile	Bottom quartile	Top quartile	Bottom quartile
BV223	% of the principal road network where structural maintenance should be considered	9	3	7	3	7
BV224a	% of the non – principal road network where structural maintenance should be considered	10	4	11	5	10
BV224b	% of the Unclassified road network where structural maintenance should be considered.	38	7	15.5	8.5	18

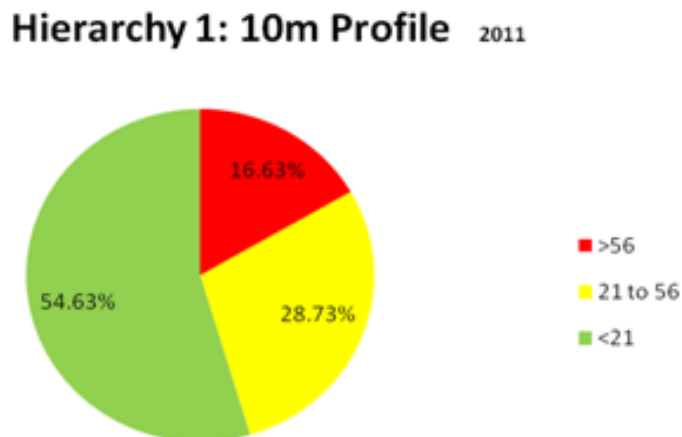
Figure 15 - Carriageway Condition Indicators for 2007/08

2.8.4.5 From 2008/09 the BVPIs were replaced by National Indicators. The methodology for calculation is similar so they can be compared. A comparison of the BV results and the available NI results are given in Figure 16 below, which shows that carriageway condition continues to deteriorate.

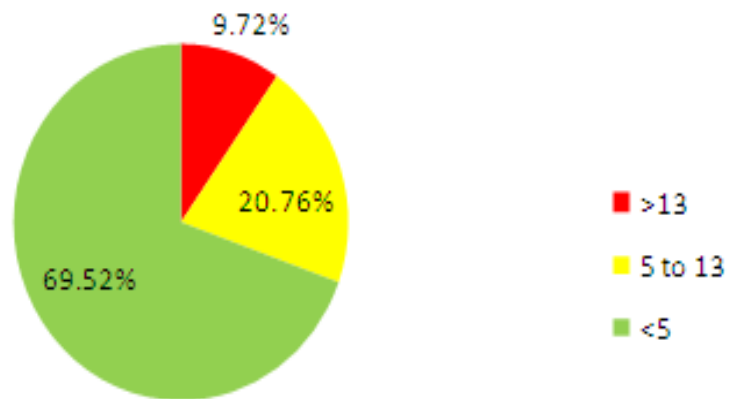
Performance Indicator	IWC Actual Performance				
	2007/08	2008/09	2009/10	2010/11	2011/12
BV223	NI168	NI168	NI168	NI168	NI168
Percentage of the principal road network where structural maintenance should be considered	9	12	17	15	18
BV224a	NI169	NI169	NI169	NI169	NI169
Percentage of the non – principal road network where structural maintenance should be considered	10	15	19	14	16

Figure 16 – Carriageway Condition Indicators 2007 to 2012

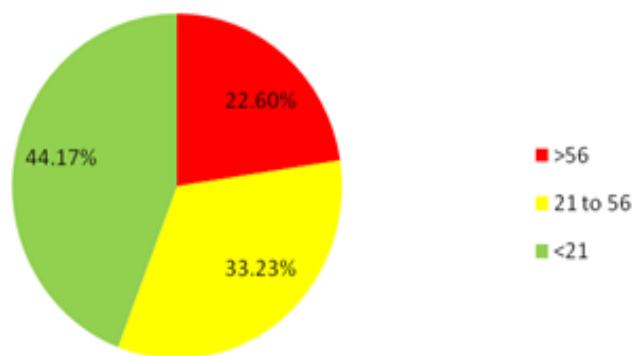
- 2.8.4.6 The condition of all the carriageways falls well short of that achieved by the best performing or even average performing authorities, and these gaps can only be closed by a significant increase in investment provided by the Project.
- 2.8.4.7 Ride Quality: Longitudinal Road Profile has been used as a measure of ride quality. The data used to judge this criteria being the 3 metre and 10 metre profiles from SCANNER carriageway surveys. By their very nature, Hierarchy 4 roads tend to have a poor 10 metre profile and it would not be good value for money to bring the longitudinal profile up to the standards of Hierarchy 1, 2 or 3 roads; hence only 3 metre profile has been used on Hierarchy 4 roads to measure ride quality.
- 2.8.4.8 The current condition figures are given below in Figure 17, with the UKPMS thresholds being identified by the standard colour coding. Green, when measurement is below the lower threshold, giving an acceptable score. Red, when measurement is at or above the upper threshold and, the carriageway becomes unacceptable, amber between the two levels when maintenance should be considered.



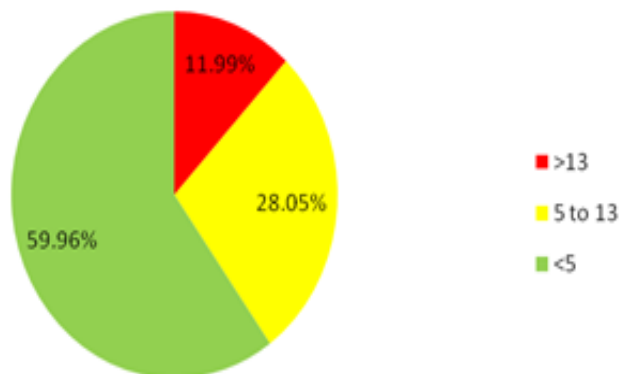
Hierarchy 1: 3m Profile 2011



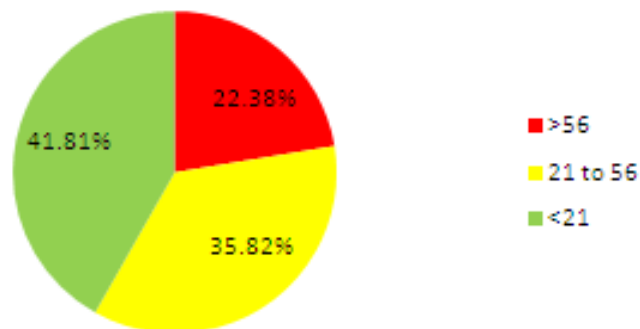
Hierarchy 2: 10m Profile 2011



Hierarchy 2: 3m Profile 2011



Hierarchy 3: 10m Profile



Hierarchy 3: 3m Profile 2011

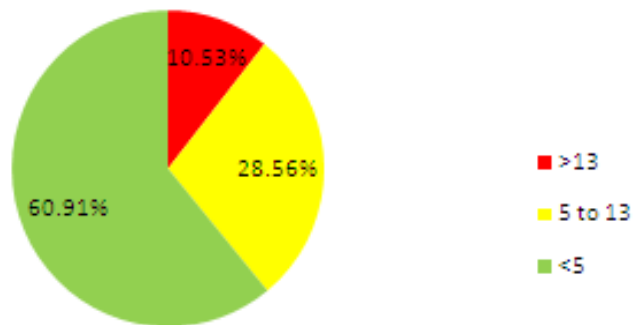


Figure 17 - 2011 3m and 10m Carriageway Profiles

- 2.8.4.9 The pie charts at Figure 17 demonstrate that 30% to 40% of Hierarchy 1 to 3 carriageways have poor 3 metre profile and 45% to 58% poor 10 metre profile indicating largely a poor ride quality of the network.

2.8.5 Sustainability

- 2.8.5.1 Since there are no high speed roads on the Network, noise is not a particular problem. Hence there are no carriageways surfaced with noise attenuating materials and they are not specified in the Project.

2.9 Standards of the Project - Carriageways

2.9.1.1 The Project seeks to address the shortfall in the condition of the carriageway by setting WCCI indexes that need to be achieved by the end of the CIP. (See Appendix S2 for details of WCCI). The current standard of the network is again delivered from the SCRIM and SCANNER surveys and the resulting WCCI is set out in the table in Figure 18 below.

DISTRICTS	1	2	3	4	5	6
Hierarchy 1	12.59	12.91	11.16	12.68	10.02	12
Hierarchy 2		10.41	9.61	11.77	8.91	12.34
Hierarchy 3	10.8	13.63	10.58	10.11	12.53	10.33
Hierarchy 4 and 4A	14.15	13.37	14.06	14.42	12.81	12.78

Figure 18 - Extract from Schedule 14 with Hierarchies and commencement indices.

2.9.1.2 The target for WCCI is:

- Hierarchy 1: Index of 15.5
- Hierarchies 2 to 4: Index of 15

2.9.1.3 The Project will address all carriageways that are below the Skidding resistance threshold; the threshold defined in the IWC's Skidding Resistance Policy and included as part of the Contract requirements (see Appendix S2).

2.9.1.4 Hierarchy 4 roads are not included in the Skid Resistance Survey as they are largely low speed roads. However the measure forms part of the WCCI for

Hierarchy 1 to 3 routes but excludes Hierarchy 4 due to there not being high speed routes.

- 2.9.1.5 The Output Specification states that any Monitoring Length where the condition is measured with a WCCI of 6 or lower is unacceptable and must be treated within the CIP. If a Monitoring Length has this score it means that not only are there surface problems but also that the structure of the carriageway itself is very poor and therefore in need of significant work. Monitoring Lengths are approximately 250 metres long in urban areas and 500 metres in rural areas.
- 2.9.1.6 In order to avoid the averaging effect when looking at significant lengths of carriageway within a Monitoring Length spot defect measures has been included. This addresses the issue of small sections which are very poor versus lengths that are above average
- 2.9.1.7 The use of SCANNER surveys is not possible over the whole of the Hierarchy 4 network due to insufficient width and geometry constraints. Those that cannot be addressed in this way have been surveyed by Detailed Visual Inspection and the resultant index from the condition defects correlated to those produced by SCANNER.
- 2.9.1.8 The Island network is such that suitable diversionary routes are not present and works will produce significantly longer journey durations. This causes road closures which are very problematic for traffic movements and also increases the likelihood of significant delays to traffic at tidal flow sites. Therefore, the quantum of work necessary to uplift the carriageway condition is such that it drives the CIP to a seven year period in order to ensure that network disruption is minimised. The Isle of Wight Traffic Model (see Appendix S4) will aid the Service Provider in the design of any diversionary routes and minimising delays.
- 2.9.1.9 The inclusion of a Carbon Calculation Tool in the Contract has incentivised the use of recycling techniques. This will also assist in dealing with the embedded

tar in the existing carriageways.

- 2.9.1.10 Whilst the Contract requires all works to comply with the Design Manual for Roads and Bridges (DMRB), the 25 year duration will bring forward the use of more innovative and durable materials which are more suitable when taking a whole life approach to investment.

2.10 Footways, Paved Verges, Cycleways, Kerbs, Steps and Channel Blocks

2.10.1 Current Condition

2.10.2 Safety

- 2.10.2.1 The safety performance of the footways can be quantified by the number of footway insurance claims by third parties; and number of urgent defects requiring treatment within 24 hours. Figure 19 below shows the annual number of third party insurance claims relating to footways defects, which has a general upward trend over the last few years.

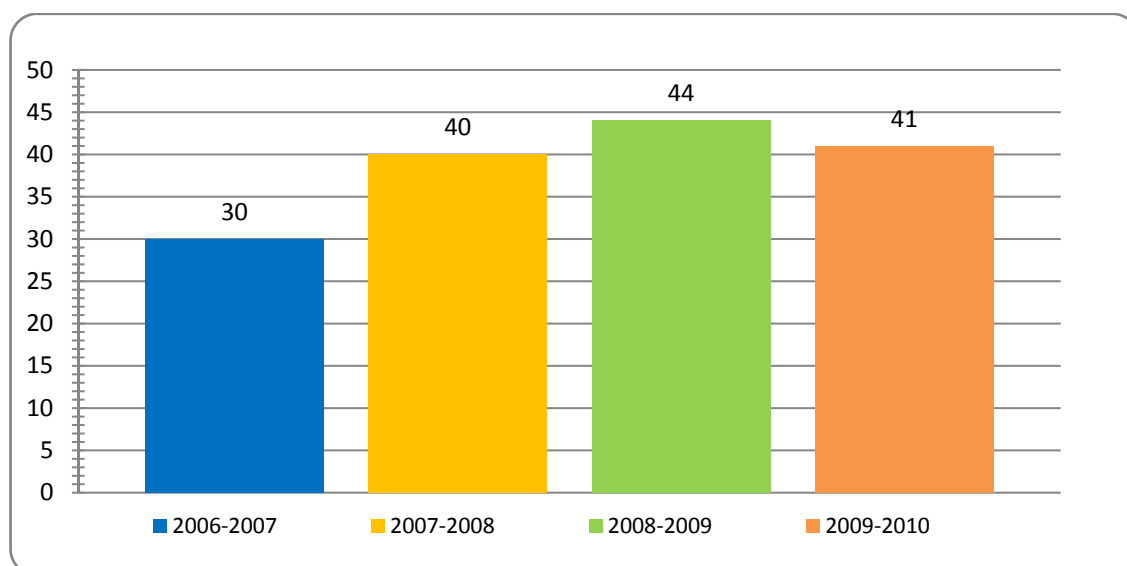


Figure 19 – Number of Footway related claims for both personal injury and damage per year

- 2.10.2.2 The number of emergency instructions to attend to urgent footway defects, as shown in Figure 19, has also been on an upward trend with a significant increase in 2008/9.

2.10.3 Serviceability

- 2.10.3.1 The table below in Figure 20 shows the 2007/08 BVPI result for the Island in comparison with the top and bottom quartile thresholds for that year. The footway performance falls into the bottom quartile for both unitary authorities and all English authorities. Since BVPI 187 is no longer current, figures for later years are not available.

Performance Indicator		IWC Actual 07/08	Unitary Authorities		All England	
Ref	Description		Top quartile	Bottom quartile	Top quartile	Bottom quartile
BVPI 187	Conditions of surface footway	46	12	30.3	14	29

Figure 20 - Footway Condition Indicator 2007/08

2.10.4 Sustainability

- 2.10.4.1 At present, little recycling of footway materials take place, with the exception of road planings being used on unsurfaced footways. The Preferred Bidder solution points to significant recycling of footway and road planing materials, with little waste going to landfill.

2.10.5 Standards of the Project

- 2.10.5.1 The current condition of the footway and cycleway network has been surveyed using Detailed Visual Inspection (DVI) as per the UKPMS manual. These defects have then been used to formulate a Wight Footway Condition Index (WFCI). The index takes the surveyed defects in area, linear and count defects categories and considers each score separately as percentages, the highest figure is then taken as the score which reflects the condition of that particular length of footway. The footway is split into the same Monitoring Lengths as the carriageways where they run parallel.

DISTRICTS	1	2	3	4	5	6
Primary	8.77	9.44	9.04	8.68	9.32	6.99
Local	8.37	8.41	7.64	9.65	9.5	8.01

Figure 21 - Extract from Schedule 14 with footway Hierarchies and commencement indices.

2.10.5.2 The footway index upgrade target for the District average has been set at 12.5; the target index is set at the boundary between fair and good condition to provide the best value for money solution. An unacceptable level has been set at 5 which is the point that the footway possesses visible defects including moderate cracking, settlement, longitudinal and transverse displacement over at least 20% of its area. An example of the condition, its relationship to the index and the typical condition description is given below. Spot defect measures are also used in the same way as carriageways.

2.10.5.3 Figure 22 sets out the WFCI classification details:

Primary

Condition	WFCI1	Minor Deterioration		Major Deterioration	Description
Excellent	20	Nil	and	Nil	New or nearly new Footway. Free of cracks, patches, and settlement
Good	15	>0% to <2.5%	and	Nil	Few visible signs of surface deterioration
Fair/Good	12.5	>=2.5% to <5%	and / or	>0% to <2.5%	Some visible signs of surface deterioration
Fair	10	>=5% to <20%	and / or	>=2.5% to <5%	Evidence of initial deterioration, including cracking, fretting, local settlement, local displacement.
Poor	5	>=20%	and / or	>=5% to <15%	Visible Defects including moderate cracking, settlement, and longitudinal and transverse displacement.
Failed	0			>=15%	Deteriorated Footways in need of rehabilitation. Effects include severe cracking, distortion and rutting.

Figure 22 - Extract from Output Specification for Primary Footway Scoring Criteria

2.11 Bridges and Other Structures on the Highway Network

2.11.1 Current Condition

2.11.2 Safety

2.11.2.1 The IWC bridges and structures have had regular principal and general inspections. Safety issues identified in the inspection programme are included in the future years' maintenance programme, dependent on funding availability.

2.11.2.2 The IWC (supported by consultants OPUS) undertook Parapet Risk Assessments (PRAs) in 2005 and a priority ranking for upgrade works was derived from its report. A number of structures have had their parapets upgraded. However, the Preferred Bidder will review each structure against current standards and undertake the necessary works to ensure full compliance. Figure 23 shows the distribution of Structure types on the Project Network

BCS Values	Very Good	Good	Fair	Poor	Very Poor	Failure
	1.00 - 1.30	1.31 - 1.80	1.81 - 2.70	2.71 - 3.70	3.71 - 4.70	4.71 - 5.00
No. of structures	141 (17%)	288 (36%)	329 (40%)	50 (6%)	8 (1%)	Nil
Total Number of bridges and retaining walls for Highways Department = 816						

Figure 23 - 2011 Highway, Rights of Way and Car Parks Bridges and Retaining Walls BCS Values

2.11.3 Serviceability

2.11.3.1 The following requirements are used to define serviceability from a user perspective.

- Structural condition (i.e. safe for use and structurally sound);

- Adequate parapets (in terms of height and strength);
- Full access (no temporary weight restrictions or height limits); and
- Aesthetic appearance. (i.e. evidence of regular routine maintenance)

2.11.3.2 The Council calculated a Bridge Condition Score (BCS) from its inspection data, giving an 'existing condition' score with a numerical value between 1.0 and 5.0. The current distribution of BCS values for the Island's bridge and structures is shown in Figure 24.

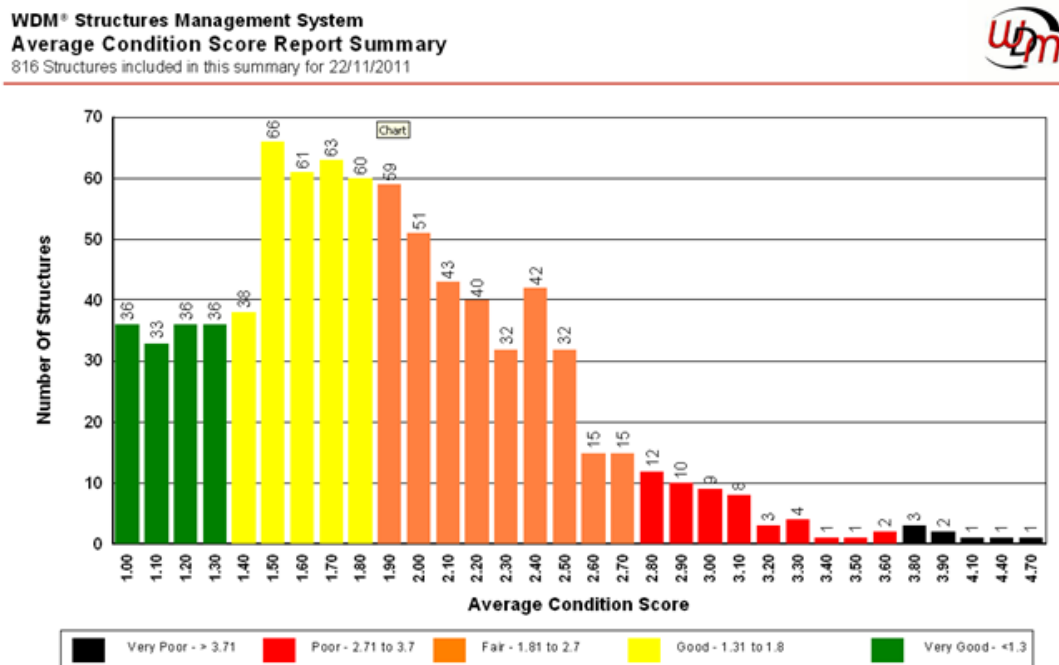


Figure 24 - Average structure condition score from WDM system

2.11.3.3 The Bridge Condition Scores (BCS) demonstrate that the overall 'existing condition' of the structures stock is in good to fair condition. Structural assessments were undertaken some years ago.

2.11.4 Sustainability

2.11.4.1 Sustainability is not currently a significant factor in the maintenance of

highway bridges.

2.11.5 Standards for the Project

- 2.11.5.1 A programme of structural reviews and assessments will be carried under the Project. The General and Principal Inspection data will be used as part of this process to confirm/determine the required strengthening works to achieve the Output Specification loading requirements. Scour and parapet risk assessments will also be completed as part of this process to improve the bridge stock score.
- 2.11.5.2 Currently eight structures have been identified as requiring strengthening works to meet the Output Specification requirements. There may be other works required once structural reviews and assessments have been completed by the Preferred Bidder. Two of these structures belong to Network Rail. The non-Network Rail structures will be strengthened as part of the Project during the CIP and any existing restrictions removed. The Network Rail structures will also be strengthened to 40 Tonnes. The IWC will reach agreement with Network Rail to allow the Service Provider to act on behalf of the IWC as the Highway Authority. The removal of all weight restrictions will ensure traffic flows for heavy goods vehicles are improved as identified in paragraph 3.6.4.1 Economic Case.
- 2.11.5.3 There are currently two bridges with height restrictions on the network. One of these belongs to Network Rail and the other to the privately owned Isle of Wight Steam Railway. The two bridges have been classed as Deemed to Comply. However as part of the carriageway upgrading works the Service Provider will review to see if the height restrictions can be improved.
- 2.11.5.4 As part of the Project, the Service Provider will carry out the assessment and provision of containment in line with TD19/06 and IAN 97/07 to parapets, piers and soffits for bridges, retaining walls and other structures. Upgrade works will be implemented during the CIP in accordance with the Output

Specification requirements. The safety deficient parapets will be upgraded and through the Lifecycle Replacement Programme integrity and functionality will be maintained. Parapets on Network Rail bridges will be upgraded where required following a site risk assessment. Consultation with Network Rail will be undertaken during the design and upgrading works. Parapet upgrade work will only be required on retaining walls greater than 1m high.

2.11.5.5 The Service Provider will also undertake risk assessments and carry out any necessary safety fence works on the approaches to Network Rail, Steam railway and river bridges, in order to minimise the risk of errant vehicles encroaching onto third party land.

2.11.5.6 Aesthetic appearance is not seen as a major concern for a maintenance project, and routine painting and graffiti removal will be undertaken as required. The Preferred Bidder is committed to consulting with the local community where large-scale works are undertaken within the AONB to ensure that new or improved structures are visually acceptable and appropriate materials are used.

2.11.5.7 The County Surveyor's Society Bridge Index has been adopted as a performance measure for this Project. The index is delivered from element scores converted into a global index. The commencement and target values are shown in Figure 25 below:

	Bridges		Bridges Critical		Retaining Walls		Retaining Walls Critical	
	Min BCI	Ave BCI	Min BCI	Ave BCI	Min BCI	Ave BCI	Min BCI	Ave BCI
Commencement	9.57	80.65	0	72.76	27.78	81.49	0	70.28

End of CIP Target Scores	85	90	79	90	86	90	81	90.5
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Figure 25 - Bridge condition requirements by the end the end of CIP

2.11.5.8 The Service Provider is required to carry out CIP and Lifecycle Replacement works to all structures. Yarmouth Bridge closing and opening operations will be remotely managed and will link to the Central Control Room. The Service Provider will upgrade the bridge systems within the first few years of the contract to ensure best practice, efficiencies and robustness for future technology changes. The scope of the changes to the bridge include:

- Remote operation of opening and closing from the Control Room;
- Remote fault monitoring from the Control Room;
- Approach VMS signs to be refurbished;
- Approach VMS signs to operate remotely;
- CCTV coverage of highway and river approaches; and
- Communication link between the Yarmouth Harbourmaster's Office and the Control Room.

2.12 Drainage

2.12.1 Current Condition

2.12.2 Safety

2.12.2.1 The presence of surface water and local flooding has safety implications. Additionally it affects pedestrian movement on the footway and cycle traffic on the cycle paths.

2.12.3 Serviceability

2.12.3.1 There are no statutory or local indicators identifying the condition of highway

drainage systems.

2.12.4 Sustainability

2.12.4.1 As with other mainland Authorities there is a trend for sustainable urban drainage systems (SUDS) to be utilised on new developments. For this Project the standard will include:

- Planning for appropriate SUDS early in a scheme's design as it is essential to enable integration of sustainable drainage systems into the overall site concept and layout;
- Agreement on adoption, maintenance and operation of the systems;
- Providing appropriate SUDS for the disposal of surface water;
- Applying SUDS within the curtilage of the development site. If this is not possible, contributing towards the cost of off-site SUDS; and
- Designing SUDS to provide multi-use benefits, such as public amenity and wildlife improvements. Where possible, rainwater should be stored for re-use such as irrigation or toilet flushing (water conservation and recycling).

2.12.5 Standards for the Project

2.12.5.1 Lack of, or inadequate, drainage systems have an impact on safety and the structural integrity of the carriageway. The Output Specification addresses the current shortfall in the condition of the drainage system to address both of these concerns. The main driver is the removal and prevention of standing water on the network. To assist the Service Provider in achieving this aim the IWC has listed 17 major schemes and 156 minor schemes which will need to be undertaken during the CIP. The Service Provider is required to ensure that the network is free of standing water and will therefore be required to identify any additional sites required to be addressed during the CIP.

2.13 Street Lighting

2.13.1 Current Condition

2.13.2 Safety

2.13.2.1 In common with many other local authorities, the IWC has a history of under investment in its lighting stock. This is compounded by the corrosive effect of the salt-air which accelerates the degradation of street lighting columns and traffic sign posts. Consequently, a significant proportion of the IWC street lighting and illuminated traffic signs asset is in a seriously degraded condition due to the combination of age and environmental conditions. Additionally, it is estimated that 50% of the existing lighting levels fall below current European and British lighting standard requirements.

2.13.3 Serviceability

2.13.3.1 The IWC has a term maintenance contract arrangement for the provision of a street lighting maintenance service with SEC Ltd. The contract is operated under a traditional term contract arrangement procured using the ICE model form of contract.

2.13.3.2 Figure 26 below, which shows the term maintenance contractor's self reported performance in rectifying street lighting faults against the BVPI performance indicators, indicates performance levels consistently above target standards.

Ref	Performance Indicator Definition	Target	IOW Actual Performance		
			05/06	06/07	07/08
BV215a	Average no of days taken to repair a street lighting fault which is under the control of the local authority	3	1.89	2.39	1.98
BV215b	Average no of days taken to repair a street lighting fault where response time is under the control of a DNO	20	9.01	6.13	9.91

Figure 26 - BVPI performance indicators

2.13.3.3 Figure 27, which details the term maintenance contractor's self reported performance in rectifying street lighting faults against the performance indicators set by the IWC, indicates a performance which would be accepted as a high standard nationally.

PI Ref	PI Definition	Target	Actual		
			05/06	06/07	07/08
LPI	% Lights in Light	98	99	99	99

Figure 27 - Requirements for lights in light 05-08

2.13.4 Sustainability

2.13.4.1 Although historically sustainability has not been a significant factor in the maintenance and operation of highway lighting, in preparation for the commencement of the Project elected members of the IWC have approved a "Dimming and Trimming" Street Lighting Policy.

2.13.5 Standards for the Project

2.13.5.1 The 11,885 lighting columns on the Island fall well below current standards. Of these, 8,951 are either life-expired or fall below the required standards and they have been defined as 'non-deemed to comply' and programmed for replacement during the CIP. The Project has adopted a "one for one" replacement principle for lighting columns. Furthermore, the Output Specification requires lighting levels to be reviewed, and where possible, meet with BS5489 standards.

- 2.13.5.2 Through the inclusion of the Council Policy for “Dimming and Trimming” and the use of the Carbon Calculation Tool, all lighting will be remotely monitored via the Central Control Room. The CMS technology will be implemented as part of the CIP. The Preferred Bidder proposals are to complete the LED lighting upgrade in year two of the CIP, giving significant energy saving from an early stage of the Contract. The Service Provider will then maintain the whole system for the full Contract period.

2.14 Traffic Signals

2.14.1 Current Condition

2.14.2 Safety

- 2.14.2.1 The maintenance regime for Traffic Signals has been previously constrained by budget pressures. Reactive maintenance and fault rectification has taken precedence which has not allowed many renewals. Some traffic signal assets are therefore in a poor condition and some poles and brackets are in a rusty and potentially unsafe condition.

2.14.3 Serviceability

- 2.14.3.1 Siemens Traffic Controls at present maintains the traffic signal equipment through a term maintenance contract. The current contract ceases at the end of December 2012 and has a one year extension option to allow for termination of the contract to coincide with the commencement of this Project.
- 2.14.3.2 The Output Specification includes the following service levels in Figure 28 below:

Function	Frequency
Electrical testing of all Traffic Signals, loop detection, variable message signs and school warning signs installations	Annual
General Maintenance - Traffic signal poles, lanterns and brackets, push button controls, outstations, MOVA, monitoring and detection systems, electrical and communications infrastructure	Bi-annual
Numbering and renumbering of poles and controller cabinets	As required
Cleaning only (additional to general maintenance above):	
Exterior of all road traffic, pedestrian and light rapid transit signal lenses, wait panels, box signs, variable message signs and school warning signs	Bi-annual
Interior of wait panels, box signs and fibre-optics	Annual
Cleaning only (additional to above on 'High Maintenance' sites)	
Exterior of all road traffic, pedestrian and light rapid transit signal lenses, wait panels, box signs, variable message signs and school warning signs	Quarterly
Bulk lamp changes	
Road traffic, wait, pedestrian and light rapid transit lanterns	Bi-annual
Box sign lanterns and School Warning	Annual
Respond to faults identified / reported – from inspections, vandalism, accidents	
Priority one faults - emergency faults	2 Hours
Priority one faults – urgent	4 Hours
Priority two faults – normal	24 Hours
Priority three faults – other	7 days
Priority four faults – outstanding	As agreed

Figure 28 - Functions and requirements specified within the contract

2.14.4 Sustainability

2.14.4.1 Sustainability is not currently a significant factor in the maintenance and operation of the traffic control equipment; although the use of LED units will in future provide a greater reliability and savings in energy consumption.

2.14.5 Standards for the Project

2.14.5.1 All traffic signal installations are legally required to comply with the relevant standards and it is intended that all installations are upgraded to comply with

these standards. This will reduce the risk of failure, whilst adopting the latest technology to reduce lamp changes and power consumption is in line with the carbon reduction aims. Sites that are in acceptable condition have been identified as “deemed to comply” and will form part of the Lifecycle Replacement necessary post-CIP. However, the introduction of current technology is anticipated even in these deemed to comply sites, as there will be savings from better reliability and energy consumption. All units will be brought into the daily operation and monitoring by the Central Control Room and this is essential to ensure that traffic delays are minimised and that flows during the CIP are kept as free as possible.

2.15 CCTV

2.15.1 Current Condition

2.15.2 Safety

2.15.2.1 The IWC CCTV Control Room equipment has been renewed over the last four years. However, it is expected that the equipment will need replacement again before the end of the CIP.

2.15.2.2 Asset condition surveys have confirmed that some 75 percent of the CCTV apparatus is in an unsafe condition or suffers from degraded performance.

2.15.3 Sustainability

2.15.3.1 Sustainability is not currently a significant factor in the maintenance and operation of the CCTV equipment.

2.15.4 Standards for the Project

2.15.4.1 As with Street Lighting, a “one for one” replacement programme is required during CIP with the remaining “Deemed to Comply” units being replaced by the Service Provider around two years into Lifecycle Replacement. All

equipment will meet the latest standards. The CCTV control room equipment will be relocated in the new Central Control Room with the other powered apparatus monitoring systems to ensure full integration and efficient management of the assets. It will allow monitoring of the traffic to be carried out alongside the control of traffic signals, assisting in the efficient use of the network and movement of traffic. As at present, the CCTV cameras will also be used for crime reduction purposes. The power required for CCTV is linked to lighting columns in a number of locations and synergies in the maintenance of the CCTV and street lighting have been identified by the Preferred Bidder. The CCTV upgrade and maintenance will be funded by the IWC.

2.16 On and Off-Street Car Parking

2.16.1 Current Condition

- 2.16.1.1 The IWC currently manages both on-street and off-street car parking through a Civil Enforcement Team. Maintenance is undertaken by external contractors and is supervised by the Civil Enforcement Officers.

2.16.2 Serviceability

- 2.16.2.1 The IWC is responsible for 15 chargeable on-street parking zones, 52 pay-and-display off-street car parks and 29 free off-street car parks/lay-bys. The condition of the car park surfaces is considered to be generally fair to good but with some exceptions which fall into the category of poor. However the ambience of many of them is not commensurate with an area of high tourist demand.
- 2.16.2.2 The IWC formally inspects its off-street car parks quarterly and the Civil Enforcement Officers report defects during their daily visits.

2.16.3 Sustainability

- 2.16.3.1 The IWC currently operates a proportion of solar powered ticket machines. Otherwise sustainability is not currently a significant factor in the maintenance of car parks.

2.16.4 Standards for the Project

- 2.16.4.1 Using the DVI survey method it has been possible to assess condition for the routes through the car parks that give access to the individual parking bays. The percentage defects measured are then used in a similar way as for footways to arrive at a Wight Condition Index for each car park. The required upgrade average target index is 15 and no car park should fall below an index of 8.

2.17 Geotechnical Schemes

2.17.1 Current Condition

- 2.17.1.1 The IWC has identified a number of carriageway lengths affected by the geotechnical features of the substrata or wider geology. Currently most of these sites are monitored on a monthly basis by instrumentation to monitor any early signs of movement. These early signs, including cracking and deformation to the carriageway, have been regularly treated as routine maintenance in the past. Since many of the affected roads are on important routes it is imperative that they remain open

2.17.2 Safety

- 2.17.2.1 Sites with inherent poor geotechnical substrata regularly cause cracking and deformation to the carriageways which affect ride quality and safety of road users when they become unsafe. Some forms of traffic restriction are imposed to maintain safety. In addition, if more roads are closed more traffic would be diverted to narrow roads in the towns and villages increasing the

risk to safety.

2.17.3 Sustainability

- 2.17.3.1 The current approach is to patch and mend any subsidence or cracking and this requires repeat visits to sites at regular intervals. If a failure becomes unserviceable without significant investment then closure and diversions have been the only option.

2.17.4 Standards for the Project

- 2.17.4.1 Eighteen geotechnical schemes have been identified by the IWC as part of the H1 to H4 upgrade where some forms of geotechnical work will be required. The upgraded geotechnical solutions will address failures and strengthen the carriageway to meet the appropriate WCCI. Bidders were incentivised to develop long term solutions with no failure within 25 years at these sites. Where long term solutions were impractical bidders were allowed to put forward short term solutions which may need repeat intervention during the Contract Period. The Service Provider liability is capped before the upgrade is completed and further capped at a higher level if a short term solution is selected. However, if a long term solution is selected, the bidders are incentivised by allowing a reduction in their bid NPV. The Preferred Bidder has selected 11 number short term solutions and 7 number long term solutions.

2.18 Conclusion

- 2.18.1.1 The IWC's "fence-to-fence", innovative approach for defining the Project scope is a holistic approach towards the Project delivery and one that has been welcomed by the bidders. The Preferred Bidder has embraced a significant amount of innovation to bring value for money solutions and make a major step change to the highway networks with consequential benefits to residents, businesses and tourists. At a strategic level, the Project is key for

the regeneration of the Island and satisfies all of the national regional and local strategies. The IWC believes that the Preferred Bidder solutions make a convincing case for the Project to be implemented with both a direct benefit to road users and a wider economic benefit to Islanders.

3. Economic Case

3.1 Introduction

- 3.1.1.1 This Economic Case identifies the scope options considered for the Isle of Wight Council (IWC) Highways PFI Project (the Project), and the final option selected. The economic evaluation of the preferred option has been assessed using a New Approach to Appraisal (NATA) methodology. This case confirms that the Preferred Bidder solution meets the Project objectives set out at the Outline Business Case (OBC) stage and the final Benefits to Cost ratio is presented to confirm the continuing economic benefit to be derived from this major investment.

3.2 Options Appraisal

- 3.2.1.1 The IWC carried out an initial appraisal of eight options for the Outline Business Case (OBC), a “Do Minimum” and seven alternative “Do Something” options, which helped to define the final Project scope. The Preferred Bidder’s solution for the Project conforms to the OBC selected option, the “Do Something” - Option 6. This option has remained the IWC’s chosen option even after the reduction in grant arising from the Government’s Comprehensive Spending Review (CSR) in October 2010. This was confirmed in the addendum to the OBC dated October 2011 and the Interim Final Business Case (IFBC) dated January 2012. The required cost reductions for the Project were achieved by reducing the upgrade standard for roads, footways, and bridges, and a change to the approach to street lighting upgrade; these are described more fully in section 2.7 of the Strategic Case.

3.3 Do Minimum and Service Improvements

3.3.1 Do Minimum

3.3.1.1 The condition of the Island's road network has continued to deteriorate through lack of capital investment over a number of years. The IWC has developed a carriageway condition model to convert physical condition survey results into a series of indices to assess the level of investment needed to reach different upgrade standards for the carriageway. A similar approach was developed for the upgrade of other highway assets and these are reflected in the Output Specification.

3.3.1.2 The Island's road network is now at the lowest level at which it can safely operate; any future deterioration of the network is likely to require further speed, width and/or weight restrictions. Hence the Do Minimum option was based on the level of investment needed to maintain the road network at the current standard. The expected level of investment for the Do Minimum

Table/figure removed due to commercially sensitive information

Figure 29 Do Minimum 2012 and 2002 Undiscounted Prices – excluding optimism bias

3.3.2 Service Improvements

3.3.2.1 The principle service improvements flowing from the Project are:

3.3.2.2 Quantitative

- Travel Time savings (achieved by using an Intelligent Transport System, increased traffic speeds, fewer road works and closures,

removal of weight and width restrictions).

- Improved road surface resulting in reduced vehicle operating costs.
- Improved road, footway and cycleway surfaces resulting in reduction in accidents and casualties.
- Improved lighting and CCTV coverage resulting in reduced fear of crime and social disorder.
- Reduction in cost to public sector as detailed in paragraph 3.6.8.1 below.
- Efficiency gains as detailed in paragraph 3.6.9 below.

3.3.2.3 Qualitative

3.3.2.4 The benefits of the Project go wider than the items that can be quantified in economic terms. There are further qualitative benefits flowing from the investment and these are identified in Appendix E2 under the five NATA objectives of Environment, Safety, Economy, Accessibility and Integration.

3.4 Benefits

3.4.1 Environmental Benefit

3.4.1.1 The improvements and innovative surfacing materials proposed for the roads on the Island will reduce noise, improve air quality and improve journey ambience. The introduction of carbon and water footprinting tools (See paragraph 2.5.14) will improve the use of plant, labour, and material to reduce the carbon and water footprint consumed and reduce greenhouse gas emissions.

3.4.2 Safety Benefit

3.4.2.1 Improved street lighting using an LED solution will help to provide efficient lighting, reducing the level of energy consumed and improve lighting levels.

The lighting levels will be controlled by the Central Management System (CMS) to adjust the lighting levels as required on the network – increasing the lighting levels for greater vigilance or as a result of an incident, or decreasing the levels later in the day and in the early hours. Improved CCTV systems will be linked to the CMS and will provide the ability to manage the traffic more efficiently. It will also enable the Service Provider to work with other agencies on the Island to address crime and disorder and, over time, reduce the fear of crime.

3.4.3 Economical Benefit

- 3.4.3.1 The investment in the Island's roads and footways will address deficiencies in the foundations and reduce significant deformation, cracking and potholes. The highway drainage will be improved as part of the carriageway and footway upgrade, reducing the incidents of flooding. This will prevent some of the consequential damage to the highway and wider infrastructure and improve the flow of traffic during wet weather. The project will also replace all of the existing traffic signals including the SCOOT system to ensure optimum performance on the highway network. Overall, the improvements proposed for the Project by the Preferred Bidder will significantly improve the operational efficiency of the network and improve traffic flows. The Island is also gifted in natural beauty, and by insisting that the Service Provider takes account of ecological and environment considerations the transport improvements will further enhance it as a preferred choice place to live and work. This is likely to result in an increase in investment on the Island resulting in increased economic activity.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

3.4.4 Accessibility Benefit

- 3.4.4.1 Once the Core Investment Programme (CIP) is complete, the accessibility to the Project Network will be significantly improved, resulting in ease of

movement of people and goods to and from the Island. The CIP investment will lead to the removal of a number of the existing weight and width restrictions further improving accessibility. This will help to further improve the image of the Island as a tourist destination, enhancing the key tourism-based economic activity.

3.4.5 Efficiency Benefits

- 3.4.5.1 The Project has adopted a 'fence to fence' approach and the Preferred Bidder solution has capitalised this approach to design its improvements and services across traditional service/contractual boundaries and integrate service delivery. This has enabled the Preferred Bidder to provide optimal resourcing solutions, multi-purpose use for plant and labour, and take a whole life approach to investment. The Preferred Bidder solutions for this Project have exceeded the expected efficiency gains of a typical PFI project through significant innovation and this has helped to improve the Service Provider's offer; the overall efficiency of the works and subsequent operations, maintenance and operations.

3.5 Calculation of Benefits

- 3.5.1.1 The Project is a 25-year contract, expected to commence in April 2013. The benefits have been calculated using the Preferred Bidder solution over the 25-year period from 2013 to 2038 inclusive.
- 3.5.1.2 The first seven of the 25 years is the CIP when the Project Network will be upgraded to a defined standard as detailed in the Output Specification (See Appendix C12). The Project Network will then be maintained to the upgraded standard throughout the remaining 18 years through a Lifecycle Replacement (LCR) programme. The Preferred Bidder CIP and LCR spend profiles have been taken into account in deriving the overall spend for the Project and set out in [REDACTED]

Table/figure removed due to commercially sensitive information

- 3.5.1.3 The Project has assumed a road traffic growth of 1.25% a year throughout the appraisal period. If an alternative assumption were to be used, the impact for some of the benefits would be changed proportionally. However if there was assumed to be, for instance, 10% more traffic there would not be a 10% increase in total benefits as some benefits are not related to traffic. This includes the efficiency gain benefit, which is related to a reduction in costs associated with improved efficiency from private sector involvement. It also includes benefits due to a reduction in fear of crime, which are related to the number of households affected by CCTV improvements rather than the level of traffic, and the reduced accident benefits which are estimated by using accident data for the past 3 years.
- 3.5.1.4 Benefits related to time savings, vehicle operating cost savings and reduced public sector costs due to lower public liability payments would however be affected by changes to assumed traffic growth.

3.6 Travel Time Savings

3.6.1 Time savings using an Intelligent Transport System

- 3.6.1.1 The Project will implement an advanced Urban Traffic Management Control (UTMC) and Intelligent Transport Systems (ITS) at key locations on the Island. This will be managed by the Central Control Room and these enhancements will further improve travel times. The systems will include a computerised, remotely controlled, traffic signals system which forms part of the Central Control Room setup at the Service Provider's offices. This system will be used in conjunction with traffic CCTV cameras and other CCTV cameras around the Island. The availability of real-time traffic information will allow the installation and operation of variable message signs

(VMS) to optimise traffic flows partially during the following events:

- ferry arrival times;
- at peak traffic flow times;
- during road works;
- during major special events;
- on demand when a road traffic accident and other incidents require special attention; and
- before and during adverse weather conditions.

3.6.1.2 The following studies have been undertaken regarding the benefits of the use of UTMC:

- The Cleopatra project in London - This project found that 58% of respondents would immediately respond to VMS congestion warnings, of which 83% would reschedule their journey and 6% would change mode.
- Southampton - Following implementation of SCOOT in Southampton, there were 18% and 26% reductions in journey times during the am and pm peaks respectively. Corresponding reductions in delay of 39% during the am peak and 48% in the pm peak were achieved. Economic benefit (excluding accident savings) equated to £140,000 in 1985.
- Cardiff - By using the UTMC an 11% saving in bus journey times in peak period was achieved. Where the priority was given to all buses at all times a 4% journey time saving and 45 seconds improvement in schedule adherence was achieved. Where the priority was only given to late buses a 3% journey time saving and 90 seconds improvement in schedule adherence was achieved.

3.6.1.3 The three studies above have direct relevance to the IWC's Project and effect on the Island's local transport. For example National Indicator 177

relating to local bus passenger journeys states that for 2009/10 the Island had 8.23 million passenger journeys. For an 8.5 mile route linking the town of Brading and the coastal resorts of Sandown, Lake and Shanklin local busses carried 1.4 million passengers in the same period. Using UTMC and ITS will benefit these journey times by optimising traffic flows, reducing congestion and therefore increasing economic benefit. The benefit for the 1.4 million bus passengers has been estimated by assuming a 10% journey time saving, valuing the impact using guidance from Unit 3.5.6 of WebTAG.

3.6.2 Time savings from increased traffic speeds

- 3.6.2.1 Time savings from increased traffic speeds resulting from better road conditions are set out below. The Preferred Bidder programme aims to achieve the Do Something state by the end of the seven year CIP. The CIP targets the stretches of the network that are in the worst condition first, resulting in a rapid improvement of the condition in the earlier part of the CIP.
- 3.6.2.2 It is generally believed that traffic speeds are constrained on sections of road with poor surface quality. As these sections of road are improved from the Do Minimum to the Do Something state, speeds and journey time reliability will improve and time savings will be generated. The central estimate assumes that speeds through these sections of roads of poor quality will increase by 3.2 kph (2 mph).
- 3.6.2.3 The Island's road network has been divided into four hierarchies of road, based on traffic flow, as set out in Figure 30 below. These values have been used in estimating the numbers of vehicles which will benefit from an improved road surface on roads in each category.

Hierarchy	Description	Vehicles per day, AADT (Average Annual Daily Traffic)
1	Routes linking urban centres. In urban areas speed limits are 40 mph or less, parking is restricted at peak times and there are positive measures for pedestrian safety reasons.	>10,000
2	These roads link the larger villages. They usually have 30 mph speed limits and very high levels of pedestrian activity with some crossing facilities including zebra crossings. On-street parking is generally unrestricted except for safety reasons.	5,000 – 10,000
3	These roads provide access to, and link, the smaller villages. They are of varying width and not always capable of carrying two-way traffic.	2,000 – 5,000
4	These are residential or industrial inter-connecting roads with 30 mph speed limits, random pedestrian movements and uncontrolled parking.	<2,000

Figure 30 Traffic Flows for the different Hierarchies

3.6.2.4 These flows are combined with the kilometres of road in each category that would have improved road surfaces and the central assumed speed improvement of 3.2 kph applied to give estimates of time savings. The time savings from all the schemes to be implemented during the CIP are built up evenly over the seven year period and maintained thereafter over the remaining 18 years of the Contract.

3.6.2.5 In order to value the time savings, modal splits were applied to the total traffic to estimate the flow of traffic by mode. The modal splits were derived by using data from <http://www.dft.gov.uk/matrix/> as detailed in Figure 31:

Traffic Mode	% Flow of Traffic Mode
Car	83.0
Light Goods Vehicle	13.1
Heavy Goods Vehicle	2.3
Bus	1.6

Figure 31 Traffic mode and flow split

3.6.2.6 Individual values of time per vehicle by mode were then applied. These are as follows in Figure 32 below:

Type of Vehicle	Value of Time(£) Per Hour, 2002 prices
Car	10.46
Light Goods Vehicle	11.63
Heavy Goods Vehicle	10.18
Bus	71.62

Figure 32 Cost per hour dependent on vehicle type

3.6.2.7 The values shown in Figure 32 represent 2002 values, taken from Table 9 of WebTAG Unit 3.5.6. For future years, a growth rate has been derived by taking a weighted average of the work and non-work growth rates in Table 3b of Unit 3.5.6. The weightings are as follows in Figure 33 below (sourced from Table 7 of Unit 3.5.6):

Type of Vehicle	Work %	Non Work %
Car	13.1	86.9
Light Goods Vehicle	88.0	12.0
Heavy Goods Vehicle	100	0
Bus	2.9	97.1

Figure 33 Work and non work growth rates per vehicle type

3.6.3 Time savings from fewer road works and road closures

3.6.3.1 The Isle of Wight Project Network has comparatively limited diversionary routes compared to the mainland. The Preferred Bidder's programme is aiming to manage the available road space to achieve a balance between the needs of the Island's travelling public (including tourists) and the requirements for road closures to upgrade, operate and maintain the Network. An Availability Matrix has been developed and is explained further in paragraph 5.2.4.2 of the Financial Case.

3.6.3.2 The current highway maintenance activity is managed through the issue of job tickets to the framework contractors to carry out the required maintenance works. On average there have been approximately 5,000 job tickets for road maintenance works on the Island each year. The average duration of road works is estimated at half a day and vehicles are assumed to be slowed down by two minutes at temporary traffic lights or by taking a longer, alternative route.

3.6.3.3 During the CIP, the number of road work sites will increase, adding to delay, due to the significant capital investment. Following the completion of the CIP, there will be a substantial reduction in road works and a consequential benefit from reduced traffic delays.

3.6.3.4 For the Do Minimum, the current position of around 5,000 job tickets per year was assumed to continue.

3.6.3.5 [REDACTED]
[REDACTED]
[REDACTED] It has been assumed that these schemes will impose an average delay of five minutes on each vehicle affected as, in some cases, roads would be closed requiring an alternative route to be taken. However, through enhanced programming some major schemes will be combined and the Availability Matrix will ensure road

closures will be kept to a minimum. It has also been assumed that the number of job tickets issued for smaller items of road works would decline steadily over the CIP, and post-CIP there would be an equivalent to some 500 job tickets issued per year, one tenth of the current rate.

3.6.4 Time savings from removal of weight and width restrictions

3.6.4.1 There are currently eight weight and seven width restrictions operating on the Island's road network. The removal of these restrictions following the CIP upgrade will benefit vehicle movements, particularly heavy goods vehicles (HGV). The number of restrictions to be removed from each category of road is combined with the average traffic flow on each category of road and the following proportions of HGV in the traffic flow by category of road as detailed in Figure 34 below (sourced from the DfT). Each affected HGV is assumed to save 5 minutes from being able to take a more direct route as a result of the removal of a restriction.

Hierarchy	Number of Weight and Width Restrictions	HGVs as % of traffic flow
1	0	2.4%
2	1	2.1%
3	6	2.0%
4	8	1.7%

Figure 34 Restrictions and % of HGV traffic flow per hierarchy

3.6.5 Reduced vehicle operating costs

3.6.5.1 The improvements to the condition of the Island's roads will lead to a reduction in vehicle operating costs. The improved average journey speeds will lead to reductions in fuel consumption, and reduction in wear and tear to vehicles.

- 3.6.5.2 The DfT's appraisal guidance (WebTAG Unit 3.5.6) provides guidance that can be used to estimate changes to fuel consumption and non-fuel costs based on changes to average speeds. This guidance has been used and the effects have been quantified and valued by applying the speed changes outlined in paragraph 3.6.2.2 and using the DfT guidance.

3.6.6 Reduction in accidents and casualties

- 3.6.6.1 The Island's road accident data for 2008-2011 has been analysed to identify the accidents in which poor road conditions might have been a major factor. Over this four year period, there were 45 fatalities and 60 serious accidents involving wet shunts and loss of control where a road's poor skid resistance may have a contributory factor.
- 3.6.6.2 Over the CIP, the skid resistance of the road surface will be improved which will allow at least a proportion of these and other non-fatal accidents to be avoided. The IWCs general experience is that the implementation of a road safety measure can normally lead to a reduction of around one third in the number of relevant accidents. Therefore it is assumed that in the completed Preferred Bidder Do Something option, one-third of these accidents could be avoided. Standard values from the DfT reduction benefits have been applied to the estimates of the reduction in the number of accidents.
- 3.6.6.3 Improved street lighting using LED technology will lead to a reduction in accidents and casualties. This has been supported by using the Maintenance of Street Lighting and Roads (MOSLAR) guidance produced by Atkins for the DfT in 2009. This guidance indicates that benefits might arise from a reduction in night-time accidents of the order of 12.5% on the Island's single-carriageway and urban roads due to the improved street lighting and maintenance regime.
- 3.6.6.4 The level of reduction of fatal, severe and slight casualties has been quantified using the MOSLAR assumptions, and the corresponding benefits

being valued using guidance from Unit 3.4.1 of WebTAG.

3.6.7 Reduced fear of crime and social disorder

- 3.6.7.1 Street lighting will be improved using LED lighting within the Island's towns and villages where there is existing lighting. The MOSLAR guidance considers the impact of enhanced street lighting on the fear of crime and social disorder. The guidance suggests making use of a research finding that 63% of households would be willing to pay £12 per year (2003 prices) for street lighting improvements, with a reduced fear of crime being one reason for this willingness to pay.

3.6.8 Reduction in cost to public sector

- 3.6.8.1 The IWC's current road and footway related public liability payments average at £513,741 per year using actual data 2000-2005 inclusive, although there is considerable variation from year to year. A major claim in relation to a fatality for example could increase the claim in any given year considerably higher than this average. The IWC would not be liable for any such payments once the required road maintenance standards have been achieved at the end of the CIP and proper scheduling of highway inspections been put in place, as per the Output Specification and as supported by the Preferred Bidder solution for the Do Something scenario.
- 3.6.8.2 For the Do Minimum, the IWC has assumed that the current levels of claims for compensation and public liability payments would continue at the present high levels.

3.6.9 Efficiency Gains

- 3.6.9.1 Improved Value for Money (VFM) gains are expected from the following two sources under this Project:

3.6.9.2 The first source of efficiency gain has been identified from previous PFI projects and is generally attributed to the greater incentivisation and efficiency of the private sector. The IWC has assumed that efficiency savings from private sector involvement through the transfer from public to private sector management of the road network are worth 15% of the expenditure under this Project.

3.6.9.3 The second source of efficiency gain arises from the availability of certainty of funding over a long period of time under a 25 year contract deriving more efficient measures from:

- Programming on an Annual, Core Investment Period, Lifecycle Replacement and Full-Term Indicative basis;
- Implementation of a LED lighting solution including CMS;
- Remote monitoring of traffic signals and other equipment such as Yarmouth Bridge Operation;
- Control of carbon and water costs and usage by the development of Carbon and Water Footprint Calculation Tools;
- Investment of state of the art multi body vehicles to improve efficiencies to cater for different service requirements;
- GPS links between operating plant and Service Provider's central Management Information System;
- An integrated, real time Management Information System (MIS) to manage resources and delivery of services effectively;
- Efficient stakeholder management using traditional and modern communication means and stakeholder involvement in monitoring service delivery;
- Effective fault reporting and feedback system; and
- Development of a state of the art GIS system to maintain the asset inventory and upgraded condition of all network assets.

- 3.6.9.4 The Preferred Bidder Do Something solution promotes a whole life cost approach which makes a significant upfront capital investment on all assets in the Project during the CIP. This helps to save the repeated, inefficient patch and mend approach the IWC has adopted so far due to lack of funding and long term uncertainty of funding. The more effective, higher capital cost measure promoted by the Preferred Bidder with corresponding savings in lifecycle costs is assumed to be equivalent to 5% of the Project expenditure.

3.7 The Value for Money Assessment (TQAT)

- 3.7.1.1 The Value for Money assessment is fully described in section 5.8 of the Financial Case. A detailed Public Sector Comparator (PSC) has been developed to compare the PFI model with the PSC; the PFI option is found to be 12.5% more efficient compared to the PSC option and hence offering greater Value for Money.

3.8 NATA

- 3.8.1.1 The NATA process was introduced by the DfT in the late 1990s. A principal purpose of the NATA process is to broaden the scope of the appraisal to ensure that decision-makers are informed of the impacts of the scheme being appraised on the five overarching objectives of transport policy – the environment, safety, the economy, accessibility and integration.
- 3.8.1.2 The NATA-style Appraisal Summary Table is attached at Appendix E2 and makes use of standard DfT approaches and values where possible. It summarises the wider-ranging appraisal, describing the principal impacts in relation to each objective in qualitative or quantitative terms. The basis for estimating each benefit item is at Appendix E3
- 3.8.1.3 The principal quantified benefit estimates are summarised in Figure 35 below, calculated over the 25-years of the concession period and expressed as Present Values in 2002 and 2009 prices. The assumptions are at

Table/figure removed due to commercially sensitive information

Figure 35 Present Value of Benefits (2009 and 2002 prices)

- 3.8.1.4 The costs of the Preferred Bidder Do Something solution is described fully in section 5.3.
- 3.8.1.5 Figure 36 below shows the costs proposed by the Preferred Bidder, in 2012 and 2002 prices, excluding optimism bias.

Table/figure removed due to commercially sensitive information

Figure 36 Do Something Undiscounted Excluding Optimism Bias – Preferred Bidder

- 3.8.1.6 The undiscounted costs of the Do Minimum, of maintaining the highways network in its current condition, excluding Optimism Bias, are as follows.

Table/figure removed due to commercially sensitive information

Figure 37 Do Minimum 2012 and 2002 Undiscounted Prices – excluding optimism bias

1 Includes the costs identified as Contract Management Costs in the Preferred Option

- 3.8.1.7 The assessment of the economic benefits from delivering this Project will be based on the Benefit/Cost Ratio (BCR); the benefits and costs are compared at Present Value as a common base for comparison by discounting at the appropriate discount rate. In line with the DfT guidance, a discount rate of 3.5% a year has been applied, with benefits and costs discounted to 2002 values. The values are shown in the tables below, with a BCR presented for

the Preferred Bidder Do something solution.

3.8.1.8

[REDACTED]

[REDACTED]

3.9 Assessment of Funding

- 3.9.1.1 The DfT Resource Grant will make funding available which is not available through mainstream Council funding. As stated in paragraph 3.3.1.1 above CIP funding of around [REDACTED] (2012 prices) would be needed to maintain the network to standard while the capital expenditure of the preferred scenario over the CIP of [REDACTED] would be needed to bring the network into a more acceptable standard and condition. The Project will make this funding differential available.

3.10 Conclusion

- 3.10.1.1 Option 6 described in paragraph 3.2 was recommended as the optimal option in the OBC and was taken forward to procurement. The Preferred

Bidder solution has now been developed in line with the Output Specification that meets this option and this Economic Case has set out how the Project continues to deliver the expected economic benefits.

- 3.10.1.2 As expected, the Preferred Bidder's core investment is incurred over a seven year CIP to bring the Island's transport network up to an acceptable condition and then continue to maintain it at that level over the remaining eighteen years of the Contract. A range of benefits arising from the enhanced quality of the network have been estimated which combine together to deliver a Benefit/Cost ratio [REDACTED] indicating that the Project continues to offer excellent value for money.

4. Commercial Case

4.1 Introduction

- 4.1.1.1 This Commercial Case is intended to provide an understanding of the Island context and the Competitive Dialogue procurement process which the Isle of Wight Council (IWC) has followed to reach the Preferred Bidder stage. It also sets out how the Project will be delivered once the IWC has entered into a Contract with the Preferred Bidder and how the IWC plans for the effective and efficient management of the Contract.

4.2 The Island Context

4.2.1 The Island

- 4.2.1.1 There are a number of key commercial considerations specific to this Project. As the Project area is an Island, the IWC has given full consideration to issues such as transport and availability of materials, Island based resources and operation of the Contract. As referred to in the Strategic Case in paragraph 2.5.14 and in paragraph 4.4.6.6 and 4.4.6.7 below a Carbon and Water Tool has been developed and is part of the Project Documents, so the Preferred Bidder will have to take due account of environmental factors in delivering the Contract.

4.2.2 Wharfage and transport

- 4.2.2.1 There are three commercial wharves operating on the Island, all on the Medina estuary, on the north coast of the Island.
- 4.2.2.2 The main wharves are Medina Wharf in Cowes, and Kingston Wharf in East Cowes, both of which currently accept regular imports of aggregates and other bulk cargos. Medina Wharf has direct road access on to the main highway network via a specially constructed link road and is also the main

export point for grain off of the Island. Kingston Wharf is due to have access to the main road network via a new road link through a proposed employment development area. This road link is due to be completed following drainage improvements, which are due to be completed in 2012. On average (between 2003 and 2008) 72,500 tonnes of stone and 102,000 tonnes of shingle and ballast per annum were imported to the Island through Cowes.

- 4.2.2.3 The smallest wharf, Blackhouse Quay, is in the built up heart of Newport. The road access is restricted adjacent to the site, and leads onto an industrial estate road, before reaching the main road network. The wharf accepts cargos of gravel for local distribution, but access by sea is limited by a narrow tidal window and relatively shallow waters.

4.2.2.4

[REDACTED]

4.2.3 Depots

- 4.2.3.1 The IWC has no Direct Labour Organisation (DLO) having transferred this service to the private sector in the early 1990's. Therefore, there is no central highway maintenance depot and the Service Provider is required to establish its own operating depot in time for Service Commencement. The feasibility of the Preferred Bidder's plans for establishing the operating depot within the required timescales was evaluated as part of the procurement process. As such the IWC is confident that the Preferred Bidder will have an operational

depot in place in time for Service Commencement. Furthermore, the IWC has identified three of its existing small satellite highway maintenance facilities which will transfer to the Service Provider for the duration of the contract period. These sites are located in strategically significant locations across the Island, towards the north at Stag Lane, the east at Smallbrook and the south at Bleakdown.

4.2.4 Minerals

4.2.4.1 The Island has a number of currently active quarries, five sand and gravel, three chalk, and one limestone (producing crushed rock). These are distributed across the Island on a predominately east/west axis orientation, following the geological occurrence of economically significant reserves. The locations of all of these quarries can be considered rural (i.e. outside development envelope boundaries) and they are spread throughout the Island, with the main centre for processing being located just to the south east of the capital town, Newport. There are three quarries that carry out some form of material recycling. The Island is also currently served by three aggregate wharfs, all located within the Medina Estuary as detailed in paragraph 4.2.2 above.

4.2.4.2 There are a number of environmental constraints to mineral operations, bearing in mind that extraction is limited to resource occurrence including major chalk aquifers, AONB, and sites designated for their European, national, or local significance for nature conservation interests (i.e. wildlife and habitats). Other physical constraints include access, existing development and allocations.

4.3 Towards Service Commencement

4.3.1 Procurement: the legislative background

4.3.1.1 Public sector procurement is governed by legislation set by the European Union mandating three core principles:

- Equality of treatment between all potential bidders;
- Non-discrimination; and
- Transparency.

4.3.1.2 Effective procurement is crucial in securing high quality, best value public services and the government has highlighted that the development of a clear procurement strategy is key to achieving Value for Money and delivering the demanding efficiency targets required to meet the new funding limits set following the government's Comprehensive Spending Review (CSR) in October 2010.

4.3.1.3 The procurement process for the Project required use of the Official Journal of the European Union (OJEU) for the open advertisement of all opportunities exceeding the published value thresholds, as is the case with this Project.

4.3.1.4 It was mandatory for the IWC to comply with these regulations and also its own Contract Standing Orders policy; therefore, a compliant procurement mechanism has been utilised for the selection of a Preferred Bidder.

4.3.1.5 The European Commission published Directive 2004/18/EC in the spring of 2004, introducing the Competitive Dialogue (CD) procedure. This mechanism has been introduced as an alternative to the negotiated procedure for complex procurements such as the letting of a PFI contract.

4.3.1.6 The IWC considered the following four (4) regulated mechanisms for undertaking OJEU procurements:

- The **Open Procedure** – whereby any organisation expressing an interest is provided with the full contract documentation and invited to tender. This method does not include any opportunity for short-listing or contract negotiation.

- The **Restricted Procedure** – which allows a pre-qualification stage to be performed to shortlist the suppliers that will be invited to tender. Again no opportunity exists for contract negotiation using this mechanism.
- The **Competitive Negotiated Procedure** – which allows the IWC to pre-qualify suppliers that will be invited to negotiate over the required service provision. There is no formal end to the negotiations prior to the Contract signature.
- The **Competitive Dialogue Procedure** – whereby the IWC pre-qualifies Service Providers to create a shortlist of those who are invited to participate in the dialogue process, affording them opportunity to discuss and refine the required solutions. Once the solution has been confirmed the dialogue is brought to a halt through formal notification to all participants and final tenders are invited. After the Call for Final Tender has been issued only limited discussion and clarification is allowed – there is no provision for further negotiation at this stage.

4.3.1.7 Guidance states that the Competitive Negotiated Procedure should now only be used in exceptional circumstances, whilst the Competitive Dialogue procedure should only be used for “*particularly complex contracts*” (ref: Regulation 18 - Public Contracts Regulations 2006).

4.3.1.8 Under the Public Procurement Directive (2004/18/EC) and the Public Contracts Regulations 2006, the Contract can be classified as a “*particularly complex contract*”. Given that it is not practical to define technical solutions for maintaining a highway for 25 years, the Competitive Dialogue procedure was identified as the mandated process for this procurement.

4.3.2 Project Approval Process

4.3.2.1 The IWC submitted its Outline Business Case (OBC) to the Department for Transport (DfT) and HM Treasury (HMT) in August 2009. Following discussions with the DfT, the OBC was revised in December 2009. The HM

Treasury's Project Review Group (PRG) reviewed the OBC and it was approved in February 2010 giving the IWC the formal approval to proceed to procurement. The procurement process commenced in March 2010.

4.3.2.2 Following the issue of the Prequalification Questionnaire (PQQ) three bidders were invited to enter into the competitive dialogue process in May 2010; however, immediately after the invitation, the new government announced a review of all schemes approved since January 2010 and the Project was finally reapproved in October 2010 with a 28% reduction in grant funding. The final grant allocation was confirmed in May 2011 (see Appendix F1) and the IWC submitted an addendum to the OBC, for the approval of the DfT and HMT (see Appendix C2). The approval was granted in January 2012. The IWC submitted an Interim Final Business Case (IFBC) towards the end of the ISRS stage (see Appendix F6 in January 2012. The approval of the IFBC and all the required derogations was granted by the DfT and Infrastructure UK (IUK)/HM Treasury in March 2012, giving the necessary clearance to close dialogue and invite final tenders (see Appendix C1).

4.3.2.3 The IWC designed its own procurement process and timelines in line with the EU guidelines for Competitive Dialogue process and this is set out below and in Figure 38

4.3.3 Key Procurement stages:

- Prequalification Questionnaire (PQQ)
- Invitation to Submit Outline Solution (ISOS)
- Invitation to Submit Detailed Solution (ISDS)
- Invitation to Submit Refined Solution (ISRS)
- Call for Final Tender (CFT)
- Preferred Bidder (PB) Selection
- Financial Close (FC)

- Mobilisation
- Service Commencement

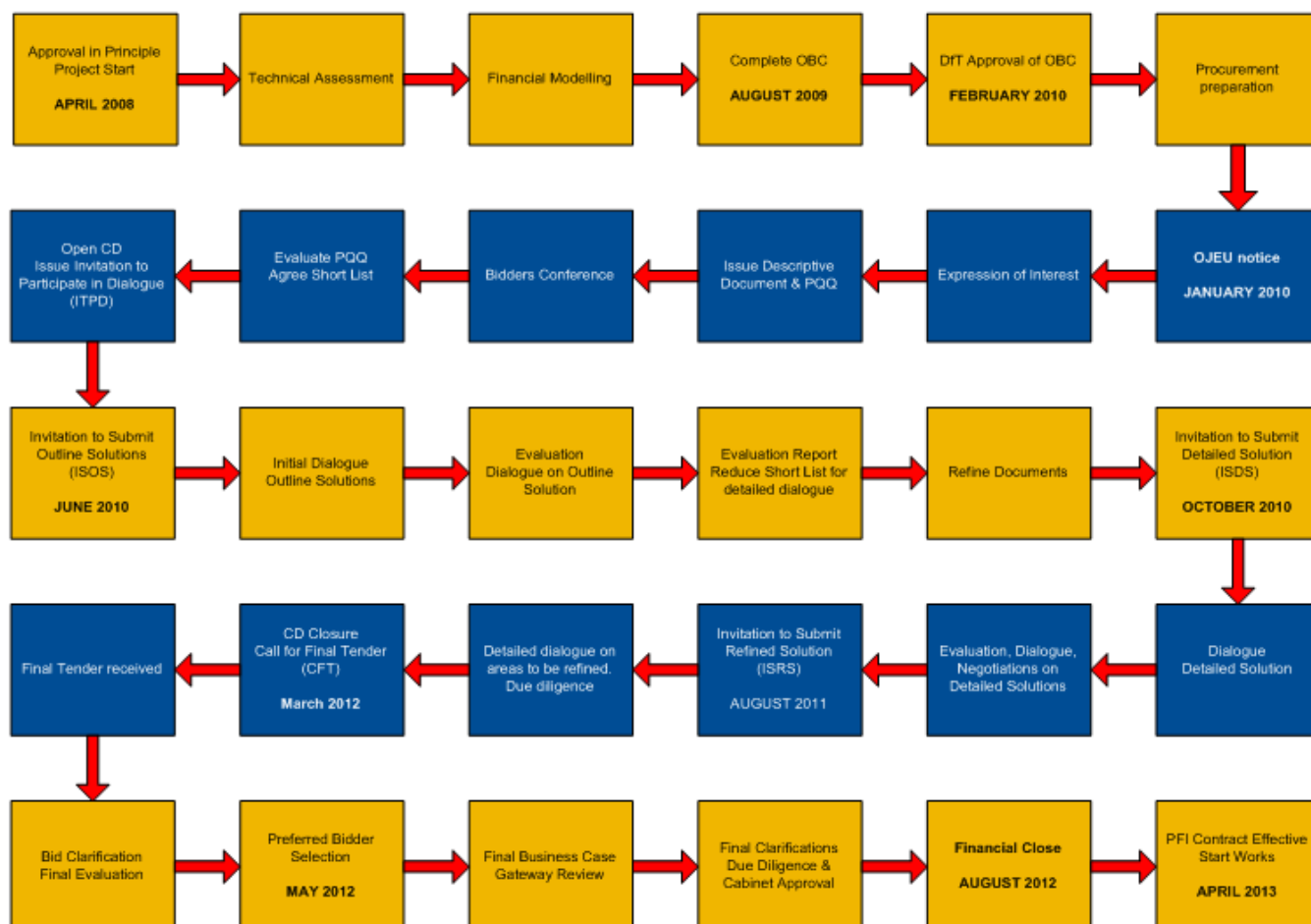


Figure 38 – Key Procurement timescales

- 4.3.3.1 A detailed Project Gantt chart is attached at Appendix C2 setting out each of the stages of procurement processes. Further detail is also provided in paragraphs 4.3.6 to 4.3.11 below.
- 4.3.3.2 The IWC's procurement process was constrained by the external approval process described in paragraph 4.3.2. However, through effective risk management, the Project progress has remained on track to complete all its key milestones to its original programme and the Project continues to remain on target to reach Financial Close and Service Commencement as initially

planned.

4.3.3.3 The IWC developed these key tools to support its procurement process;

- an Electronic Data Room;
- a Carbon Footprint tool; and
- a Water Footprint tool.

4.3.3.4 The IWC created an Electronic Data Room, with Extranet Access based on 4Projects to support information sharing with bidders. All supporting documents including asset data, condition and historical maintenance records, third party agreements and IWC's own policies and practices were deposited in the data room and updated as surveys were being completed. The Project Network and Project Network Parts were defined using a series of GIS layers, such that each asset category was defined in a single GIS layer. Repeated surveys throughout the procurement phase enabled the IWC to improve its confidence in the quantity and quality of asset data.

4.3.3.5 The Carbon and Water Footprint Calculation Tools fundamentally changed the nature of the bidder solution and have remained key procurement/project tools for the IWC. More detail is provided in the Strategic Case in paragraph 2.5.14 and in paragraphs 4.4.6.6 and 4.4.6.7 below.

4.3.4 Procurement using Competitive Dialogue

4.3.4.1 The IWC has appointed the Preferred Bidder on 30 May 2012 following a detailed and comprehensive Competitive Dialogue process. The process opened in March 2010 and continued through ISOS, ISDS, ISRS and CFT stages, providing adequate time and resources to explore the solutions proposed by the bidders. The process was used to continually develop the proposed solutions and achieve the required upgrade to the network with maximum efficiency and Value for Money.

- 4.3.4.2 The dialogue programme was published at the start of each stage and managed on a weekly basis. The agendas for the sessions were managed on a weekly basis, usually allocating a day of dialogue to each bidder, normally covering a single project discipline e.g. Technical, Finance or Legal. The IWC has been represented by the project team experts, supported by their external advisors when required. Each specialist stream team had administrative support from dedicated members of the Project Team. The dialogue proceedings were digitally recorded and uploaded to the individual bidder's section of the Extranet. Meeting notes were also added to the Extranet at the end of the week.
- 4.3.4.3 Each stage of the procurement process opened with a day long Plenary session with each bidder. The Plenary sessions announced the protocols and ground rules that would ensure an orderly, professional and productive round of dialogue and the IWC's expectations for that stage of the procurement. In the case of the ISDS and ISRS Plenary sessions, detailed feedback was also included in the sessions, which supplied each bidder with an analysis of the evaluation of their submission.
- 4.3.4.4 During the dialogue phases, the IWC operated a Request for Information (RFI) system to support bidders to seek clarification, confirmation or additional information. This enabled the bidders to request information from the IWC to assist in the formation of their bids. At all times through the process the IWC maintained a consistent and fair approach to all such requests for information and ensured that commercial confidentiality was maintained.
- 4.3.4.5 In total, approximately 107 days of dialogue were undertaken between the ISOS stage in June 2010 and the completion of ISRS in March 2012. See Appendix C3.
- 4.3.4.6 In order to achieve best value and efficiency targets the IWC approached the competition positively, taking full account of the opportunities for innovation

and genuine partnerships which are available. Importantly, this strategy balanced two priorities:

- delivering efficiencies and quality; and
- sustainable procurement, engaging with local and regional suppliers to promote the local economy whilst taking into account the social and environmental impact of spending decisions.

4.3.4.7 The IWC also developed two models to monitor both Carbon and Water usage in the Contract. The bidders were required to bid the level of water and carbon consumption in delivering the Project and their performance below bid back target is adjusted in the Payment Mechanism. The Carbon Model in particular provided the IWC with a mechanism to encourage the use of local resources, inclusion of locally based supply chain and significant environmental benefits from recycling existing highway material. The impact of this approach has had a significant positive impact on the affordability of the Project and its overall value for money.

4.3.5 The Evaluation Criteria

4.3.5.1 The IWC published its evaluation criteria and scoring methodology at the commencement of the procurement process and a copy of the criteria (Award Criteria) is at Appendix C4.

4.3.5.2 The highest level of evaluation criteria was set as:

- Technical 40%
- Legal 20%
- Financial 15%
- Risk Adjusted Price 25%

4.3.5.3 Below the high level, the evaluation criteria is far more detailed, covering all key areas of the submission, for example, the Technical section contains 24 separately scored evaluation criteria, including areas such as Network Standard, Carbon Control and Management and Mobilisation.

4.3.5.4 Published evaluation criteria were applied at each submission stage by the IWC's teams of evaluators. The teams normally consisted of Project Team members, external advisors and internal IWC experts. Each separately scored evaluation criteria was normally evaluated by at least three appropriate professionals, who subsequently discussed and agreed the evaluation score for the criteria, before submitting the evaluation for review by the Peer Review Team (PRT), chaired by the Programme Director. The terms of reference for the PRT required it to review and approve all evaluation results. At the end of each evaluation stage a report was produced and submitted to the senior IWC officers and IWC Cabinet Members of the Project Board and Member Review Board for approval, before the next stage of the procurement process commenced. Further detail on the Project Board and Member Review Board is included in the Management Case in paragraph 6.6.2 and 6.6.3.

4.3.6 Post-OBC to the issue of ISOS (to August 2010)

4.3.6.1 The IWC continued with the preparation of the Project Agreement, Output Specification and Payment Mechanism in readiness to commence procurement. Upon approval of the OBC in February 2010, the IWC placed an OJEU contract notice, a copy of which is attached at Appendix C5.

4.3.6.2 The IWC held a Bidders Day on the Island to announce to the construction industry its intention to commence a procurement process to secure a Service Provider for the Project. The Bidders Day was well attended by the industry and provided the opportunity to generate the required level of interest. The IWC, the DfT, the Project Team, the IWC's external advisors, the IWC Cabinet members, the IWC's Section 151 officer and the IWC's

Director of Economy and Environment attended the Bidders Day and made the case for investing in the Project. The IWC took the opportunity to hold an exhibition and demonstration its own Technical Model, virtual data Room and the Extranet system. There was opportunity throughout the day for prospective bidders to ask questions of the IWC attendees; individual potential bidders were also given an opportunity to have one-to-one discussions with the IWC Cabinet members and senior officers.

4.3.6.3 Immediately after the Bidders Day, the IWC issued the Prequalification Questionnaire (PQQ) and the following bidders were qualified to be taken forward into procurement:

- Amey Ventures
- Vinci Concessions; and
- Wight Highways Partnership (a Joint Venture between Colas, Lloyds, and Aggregate Industries)

4.3.7 ISOS (August 2010 to October 2010)

4.3.7.1 In May 2010, the Invitation to Submit Outline Solution (ISOS) was issued to the three bidders. The IWC divided the Island into six geographical districts and used District 3 (centred on the north east of the Island, Ryde, Wootton, Bembridge and St. Helens) as the sample area for the Outline Solution stage. The three bidders were engaged in a series of dialogue sessions covering the technical and financial items of the Contract and key areas of the legal Project Agreement. The ISOS stage was used to set out the client requirements and discuss with bidders possible solutions and options to meet the requirements.

4.3.7.2 In order to minimise early bidder costs and thereby have a reasonable number of initial bidders, the IWC set a realistic timetable for achieving the various stages of the Competitive Dialogue process (see paragraph 4.3.3.1 above and the Management Case paragraph 6.5) and held meetings in

London, or other mainland locations as appropriate, to minimise the need for bidders to travel to the Isle of Wight. Bidders were encouraged to come to the Island to verify the nature of the assets for themselves and discuss other matters as required.

- 4.3.7.3 At the end of the ISOS stage, the three bidders made a formal submission of their solutions; these were evaluated by the Project Team, subject matter experts and external advisors in accordance with the published Award Criteria.
- 4.3.7.4 During this period, the IWC's PFI grant approval was suspended, pending the Comprehensive Spending Review (CSR) announcement. This created a degree of uncertainty among the bidders and the level of commitment varied. However, they remained faithful to the IWC and the procurement process and were rewarded when the Project was re-approved in October 2010 as part of the CSR announcement. The IWC invited all three bidders to participate in the next stage of the procurement process, Invitation to Submit Detailed Solutions (ISDS), immediately after the CSR announcement.

4.3.8 ISDS (October 2010 to July 2011)

- 4.3.8.1 At the beginning of the ISDS stage, the IWC provided detailed feedback to the bidders on their individual submissions and set out its own expectations for the next stage. The feedback looked at each aspect of the bidders' submission, identifying clearly where the Project Team had questions and concerns. This feedback was critical in making the bidders specifically aware of where their submissions were meeting the IWC's expectations and where they were not. The tender documents were refreshed for the ISDS stage based on the ISOS stage dialogue and responses. In addition, a full copy of the Project Agreement was released at the ISDS stage. The bidders were individually taken on a tour of the Isle of Wight and key aspects of the infrastructure requiring upgrade were pointed out to them. This helped bidders to better understand the IWC's requirements and produced a much

more accurate due diligence process. The ISDS stage was an extremely comprehensive process and there were detailed discussions with bidders over the technical, legal and financial aspects of the Project; formal ISDS stage submissions were received from the three bidders in April 2011.

- 4.3.8.2 At the beginning of the ISRS stage, the IWC again provided detailed feedback including the IWC's mark-ups of the ISDS submission to the bidders on their individual submissions and set out its own expectations for the next stage. After consideration of the ISDS submissions, all three bidders were invited to participate at the ISRS stage.

4.3.9 ISRS (August 2011 to December 2011)

- 4.3.9.1 The tender documents were refreshed for the ISRS stage based on the ISDS stage dialogue and responses.
- 4.3.9.2 During the ISRS stage, bidders focused their dialogue sessions on those areas of their submissions where they felt they were required to make a greater improvement. There was more detailed and specific discussion on all aspects of the Project Documents, resourcing, financing, risks, insurance, latent defects, CIP upgrade standards, handback requirements, planning and mobilisation. During this stage the Project Team also met with the proposed lending group and their advisors for the three bidders and helped gain confidence in the level of commitment towards early due-diligence. Following a number of detailed dialogue sessions with the three bidders the ISRS submissions were received in December 2011.

4.3.10 From ISRS to the issue of CFT (December 2011 to March 2012)

- 4.3.10.1 Following the evaluation of the ISRS submissions, the IWC de-selected one of the bidders, based on previously published Award Criteria. The Project Team provided detailed feedback to the de-selected bidder both in writing and during a de-brief meeting outlining those aspects of the bidder's

submission which did not score as well as other bidders and those that met or exceed the requirements.

4.3.10.2 The IWC continued to dialogue with the two remaining bidders during the ISRS stage on all outstanding technical, legal and financial issues. The Project Team also had discussions with the lending groups to assess the volatility in the funding markets, changes to long term lending terms and potential changes to the group itself.

4.3.10.3 Following discussion and agreement over the approach to derogations with both the DfT and Infrastructure UK (IUK) the IWC issued CFT documents to the two bidders in March 2012.

4.3.11 From CFT to the appointment of a Preferred Bidder (March 2012 to June 2012)

4.3.11.1 Following the evaluation of the CFT submissions, the recommendation for appointment of the Preferred Bidder was accepted by both the Project Board and the Member Review Board and endorsed by the Council's Cabinet at a special meeting. The Cabinet Report is contained at Appendix C6 and the minutes of the Cabinet Meeting is at Appendix C7. The IWC has reserved the right to hold the second placed bidder, whose bid is compliant, in reserve until Financial Close. .

4.3.11.2 At the CFT stage of the procurement the IWC required evidence from bidders of confirmed funding following internal credit approvals and to hold terms until 31st August 2012. The funders' letters are attached at Appendix C8 and have been provided as part of the CFT submission. The IWC therefore has a three month window during which to complete the final clarification and FBC approval before reaching Financial Close in August 2012.

4.3.11.3 As a result of the extensive and detailed dialogue phases of the procurement

IWC has managed to negotiate all of the key aspects of the contract with the Preferred Bidder; there are therefore no contentious issues for clarification during the Preferred Bidder stage. The IWC is therefore confident that Financial Close can be achieved in this period and will work with the DfT, IUK and HM Treasury to achieve this.

- 4.3.11.4 Despite difficult financial conditions, the IWC has been able to present an attractive and innovative project to bidders, which has attracted much interest from funders. Very positive feedback was received from the bidders' funders, and their technical and legal advisors in relation to the nature of the Project and how it is being presented and managed by the IWC. Funders have gained considerable confidence in the Project as a result of the in-depth project data which has been made available, and from the IWC's methodical approach to managing the procurement process.

4.4 Delivering the Contract

4.4.1 Structure of the Contract

- 4.4.1.1 The Project is governed by a comprehensive and cohesive suite of contract documentation. This includes the Project Agreement, Output Specification and Payment Mechanism. A summary of the documentation including the various schedules and annexures is described in Appendix C9.

4.4.2 Project Agreement

- 4.4.2.1 The IWC developed a Project Agreement based largely on the Standardisation of PFI Contracts versions 4 (SoPC4) but also reflecting the special nature of the Island. The Project Team also referred to precedents set in previous Highways Maintenance and Lighting PFI contracts and to a lesser extent the draft Highway Management Procurement Pack produced by Local Partnerships (formerly 4Ps).

- 4.4.2.2 Legal meetings were held with DLA Piper LLP, Burges Salmon LLP, WSP (technical advisors) and Pricewaterhouse Coopers (PwC) (financial advisors) to discuss and reach agreed positions on certain key issues for inclusion in the Project Agreement. As DLA Piper LLP had experience of this sector from the Birmingham City Council project and the Sheffield City Council Project, the IWC was able to take advantage of this knowledge on all relevant key issues within the sector.
- 4.4.2.3 The IWC have been committed, wherever possible, to adhering to the drafting contained within SoPC4. There are however a number of sector-specific derogations for which approval was sought. These derogations arise, in the main, because this is a maintenance project rather than a design and build project. There are project specific reasons relating to the Island that require derogations. These include bespoke mechanisms to ensure best Value for Money when dealing with latent defects, geological and geotechnical risk, and events which are critical to the Island's economy (i.e. the Isle of Wight Festival, Bestival and Cowes Week). The IWC has, wherever possible, taken advantage of the lessons learnt on sector-specific derogations approved in the Birmingham and Sheffield projects in its drafting.
- 4.4.2.4 The Project Agreement sets out the basis on which the IWC has agreed to risk share on this Project. These have been fully discussed with the bidders and the Preferred Bidder has accepted the principles and the contract terms. Appendix C10 sets out the high-level summary of the risk share approach adopted for this Project.

4.4.3 Derogations from SOPC4

- 4.4.3.1 The IWC has agreed all of the required derogations with IUK and the final list of agreed derogations is attached at Appendix C11. The IWC has updated

the table throughout the procurement phase and worked with the DfT and IUK to ensure that approval for derogations could be obtained in a timely manner. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4.4.4 Output Specification

4.4.4.1 The Output Specification sets out the requirements and standards that the Service Provider is required to achieve throughout the 25 year duration of the Contract.

4.4.4.2 In formulating the basis of a suitable and workable Project the IWC has drawn on the experience of technical experts and other local authorities that have procured PFI projects. As a result, the Project is specifically adapted to the Island, its Eco Island ambitions, and its aim for refurbishing assets based on a whole-life approach, using a significant amount of innovation. The IWC's performance requirements are set out in detail in the Output Specification which is attached at Appendix C12 and is based on Local Partnerships guidance.

4.4.4.3 The IWC set a number of standards for each highway asset category, and these are set out in the Output Specification. These standards have been tested for appropriateness by developing and running models for Isle of Wight conditions and affordability. The models were revised to cater for the reduction in grant funding, post-CSR, by reducing upgrade conditions, where feasible. This was achieved by using updated data, gathering additional data and completing research on new technologies and materials to ensure the standards remained appropriate and more importantly affordable. The IWC created its own base cost model to test the appropriateness of the specification and affordability; input costs were developed using:

- information from other highway and lighting PFI projects
- current best practice across other Local Authorities
- Well-Maintained Highways – Code of Practice for Highway Maintenance Management
- Management of Highway Structures – Code of Practice, UK Bridges Board
- Well Lit Highways – Code of Practice for Highway Lighting Management
- Environmental Protection Act guidance
- the DfT design manuals
- Highways Act 1980
- The New Roads and Street Works Act 1991
- Traffic Management Act
- The IWC's internal policies

4.4.4.4 The core services that are required under the Output Specification are closely aligned with industry standards together with innovation for the next generation. The development of the carbon and water forecasting and reporting tools, a central control system for lighting, managed dimming and trimming leading to approximately halving the energy requirement, use of specialist geogrids in carriageway reconstruction, and insitu and exsitu treatment of tar are all part of a project-specific approach to achieving better Value for Money. Standards for litter and detritus grading are in accordance with the Environmental Protection Act 1990 (EPA) together with, graffiti and fly-posting. This is important to ensure the IWC achieves the highest standards of cleanliness on this tourist Island.

4.4.4.5 Detailed discussions have been held during dialogue with the bidders and the Utilities to facilitate coordination works on the Project Network. The coordination is further facilitated by implementing an Availability Matrix (see

the paragraph 5.2.4.2) which forces the Service Provider and Utility companies to work within a restricted window of carriageway/lane availability. The Service Provider is required to co-ordinate and programme its works with all third parties to ensure works on the Project Network are scheduled to provide optimum performance by the road users. This includes the IWC's Waste Contract and BDUK project which will provide improved broadband services to the Island. The Service Provider is required to provide the IWC's Contract Management Team with a variety of programmes and reports to ensure that the Output Specification requirements are being adhered to, through a real time Management Information System (MIS). Depending on the type of report, these will be reviewed daily, weekly, monthly, quarterly or annually. An annual report of the Service Provider's performance will be submitted to the IWC's Cabinet, in a similar format to annual reports of private companies.

4.4.4.6 The IWC has introduced a Dimming and Trimming Policy for street lighting and also introduced a requirement to use LED lighting on the Project Network. This will drive down energy savings to the Service Provider who has taken the risk for energy pricing and consumption. The incorporation of the Central Management System will also drive efficiency and flexibility of light usage around the Island. There may be a requirement for increased lighting levels during special events or when works are being completed overnight on the Project Network. Further information is contained within the Strategic Case, paragraph 2.13.

4.4.4.7 The Technical and Financial modelling has applied market rates to the costs of delivering these standards of service and taken account of scale, continuity and private sector operating efficiencies.

4.4.5 Performance Requirements

4.4.5.1 The IWC's Contract is an output-based service contract designed to raise the standard of service through efficiency gains in the delivery. Service

payments will be based on either meeting milestones or Output Specification requirements and hence the contract documents contain detailed outcomes and key performance indicators for each aspect of service delivery. The IWC has adopted the model standard form framework and devised its own detailed specification. This includes Island specific issues such as geological risk to the project network, sustainability, Carbon Footprint, Water Footprint, GIS and GPS technologies, central Control Room, remote operations, grace periods (for those elements of the Project Network that require additional time to bring up to standard), night working, and restrictions on refurbishing certain parts of the network during certain critical dates for tourism. The IWC has set out the following Performance Standards (PS) for this Project:

- PS1 Network Performance
- PS2 Surveys and Inspections
- PS3 Core Investment Period
- PS4 Network Standards
- PS5 Environment
- PS6 Emergency and Response
- PS7 Winter Service
- PS8 Policies
- PS9 Network Management
- PS10 Contract Management and Customer Interface

4.4.5.2 Each performance standard follows the format set out:

- Introduction which describes the standard
- High Level Performance Outcomes which provide the aims of the performance standard and processes required that affect the whole

performance standard.

- Common Requirements which are specific outputs or timings that are referred to or affect a number of the paragraphs in the standard. These may also be repeated in each standard.
- Specific Required Outcomes are the main thrust of the specification with detail on individual elements of the service to be provided.
- Performance Adjustment tables which link the performance requirements to the Payment Mechanism.
- Appendices, which contain supporting information or detailed requirements which may be input rather than output form.

4.4.5.3 The Output Specification and Performance Requirements link to the Payment Mechanism detailed at Appendix C13.

4.4.5.4 If the Performance Requirements are not met the adjustments defined in the Output Specification tables come into force. It sets out a rectification period, a monetary adjustment and an escalation type for the monetary adjustment if the rectification does not take place within the rectification period. The severity of the adjustment and subsequent escalation depends on the level of importance given to these requirements in the Output Specification. For example, Health and Safety related and Island-specific issues have a higher Performance Adjustment and subsequent escalation due to the nature of the requirement.

4.4.6 Payment Mechanism

4.4.6.1 The Payment Mechanism is the framework for the payment of services, which must be delivered by the Service Provider to the required quality and timeframes as described in the Contract.

4.4.6.2 Performance during the Core Investment Period (CIP) will be measured through the achievement of milestones – 6 monthly during the seven year

CIP. The initial level of Unitary Charge, 70%, reflects the total contract value less an amount to equate to the value of core investment works. As each milestone is achieved, the Unitary Charge steps up in increments. Those increments having been set by the Service Provider within the Contract. This makes the Unitary Charge reflective of the total contract value on completion of the CIP. Should milestones not be achieved, the Payment Mechanism has a Milestone Default Termination Points (MDTP) regime that allows for one point to be awarded for any failure during the first milestone but accelerates this to one point for each district failure in subsequent milestones. Termination becomes effective once the MDTP Termination Threshold of 4 points or more is reached.

4.4.6.3 Energy consumption and price risk are both being transferred to the Service Provider. The energy payment for the duration of the project was established in the Preferred Bidder's bid, subject to any dimming/trimming changes agreed during the life of the project.

4.4.6.4 The Payment Mechanism allows for the accrual or de-accrual of assets, as necessary, during the life of the project.

4.4.6.5 Payments to the Service Provider will vary according to performance against agreed standards set within the Output Specification (see paragraph 4.4.4 to 4.4.6 above and Appendix C12). Each Performance Requirement details the rectification period, adjustment type, adjustment period and escalation type so that any required Performance Adjustments can be calculated each month. The Output Specification also details the Service Default Termination Type applicable to each performance failure and the Payment Mechanism translates these into Service Default Termination Points, with the action required at certain point accumulation levels to avoid termination.

- **Performance Requirements** means the minimum standards of service provision relating to each Performance Standard as set out in the Output Specification.

- **Performance Adjustments** means those adjustments calculated in accordance with the paragraph 5 of the Payment Mechanism.
- **Service Default Termination Types** means in respect of each Performance Requirement the corresponding type of Service Default Termination Points (as set out in Table 6 of the Payment Mechanism) to be applied in respect of each failure to comply with such Performance Requirement as set out in Performance Standards 1 to 10 of the Output Specification.
- **Service Default Termination Points** meaning points accrued for a failure relating to a Performance Requirement in accordance with Performance Standards 1 to 10 of the Output Specification.

4.4.6.6 The Service Provider is required to bid a level of carbon usage during the Project as detailed in paragraph 4.3.3.5 and 4.3.3.6 above, and in 2.5.14 of the Strategic case. Should the Service Provider exceed any of the carbon forecasts then the Payment Mechanism provides for adjustments to be made at a price per tonne related to the CRC carbon price.

4.4.6.7 The Service Provider is also required to bid a forecast of water usage and adjustments for over-usage will apply with the relevant price per m³ being linked to the price review stages of OFWAT.

4.4.6.8 The Project Network has comparatively limited diversionary routes compared to the mainland. The IWC has, therefore, included an Availability Matrix within the Payment Mechanism that is intended to manage road availability to achieve a balance between the needs of road users, and the need for road closures to upgrade, operate and maintain the Project Network. The Availability Matrix identifies when roads are 'Deemed Available' to the Service Provider and when the Service Provider will incur deductions for working on the Project Network.

4.4.6.9 The Availability Matrix has a Base Case which is split between:

- summer and winter availability, to reflect the increased road user requirement during the tourist season;
- rural/urban split reflecting the difference in road usage depending on the day of the week or location; and
- weekday and Saturday and Sunday availability.

4.4.6.10 To recognise the traffic sensitivity of certain roads and also the occurrence of certain special events (Isle of Wight Festival, Bestival and Cowes Week) on the Island, a Premium Deduction Matrix applies with defaults relating to traffic sensitive roads incurring either a Premium or Traffic Sensitive Deduction applied as appropriate. Certain activities, such as dealing with geotechnical schemes and delivering the Winter Service, are exempt from the Availability Matrix to recognise the importance of these activities and the potential need for a longer road closure period.

4.4.6.11 The IWC developed the Payment Mechanism (please see paragraph 5.2.4) to:

- be objective, clear, simple, cost effective and capable of measurement
- incentivise the Service Provider to deliver to required standards, timetable and project objectives
- encourage the Service Provider to extend asset lifecycle through the use of innovative design and new technology; and
- be bankable

4.4.6.12 The Payment Mechanism has been accepted by the Preferred Bidder.

4.4.7 Preferred Bidder

4.4.7.1 During the Preferred Bidder stage of the procurement the IWC will be working with the Preferred Bidder to finalise arrangements for Financial

Close, mobilisation and the commencement of the Contract. This will include some fine tuning of the CFT submission, review of financing documents and further consultation meetings between the Preferred Bidder and those staff who will be subject to a transfer to their employment under TUPE. Extensive communications activity will also take place at this stage as detailed in paragraph 6.13 of the Management Case.

4.4.8 Mobilisation

- 4.4.8.1 The IWC has now appointed a Preferred Bidder who has confirmed funding from their funders and these terms are being held until August 2012. The IWC has had extensive, detailed discussions during ISRS stage and the Bidders, their funders and their advisors have completed all necessary due diligence on the contract documentation and were ready to go to their respective credit committees to obtain confirmed terms (please see paragraph 4.3.11.2 above). The IWC, therefore, is confident to achieve Financial Close by end of August 2012 and have designated a seven month period for the Service Provider to mobilise in readiness for service commencement in April 2013. A mobilisation schedule has been included as part of the Project Documents which sets out for each month within the mobilisation period the milestones that the Service Provider must reach in order to satisfy the IWC that the Service Provider is working towards, and can achieve, service commencement on time. The mobilisation milestones enable the Authority to monitor progress and emergency risks.

4.4.9 Partnering

- 4.4.9.1 The Contract includes provisions relating to partnering. A Highways PFI Board will be established that will foster a spirit of partnering between the Parties. The Highways PFI Board will be comprised of membership from both the IWC and the Service Provider. The objectives of the Highways PFI Board are to:

- secure a working relationship between those involved in meeting or contributing to the Authority's objectives;
- to assist in effective communication between the Parties, those involved in meeting or contributing to the Authority's objectives and interested parties;
- to provide leadership, commitment and motivation;
- to create and maintain a partnering process and a team culture, including the establishment of joint working structures;
- to achieve mutually beneficial outcomes for the Parties;
- to assist in giving strategic direction to the management of the Project Facilities and to ensure that longer term issues are properly considered and;
- to ensure that all decisions support the Authority's compliance with its Best Value duty.

4.4.9.2 The role of the Highways PFI Board will be to facilitate the achievement of the objectives, detailed above, to promote best whole life cost and optimise network investment decisions, to reduce bureaucracy and duplication of effort therefore enhancing efficiency and economy and to set optimum targets for year-on-year improvements.

4.4.10 Dispute Resolution

4.4.10.1 The Project Agreement contains provisions relating to the resolution of disputes. The process which has been adopted is a stepped and proportionate escalation process, involving a process of attempted resolution by the Highways PFI Board prior to adjudication. There is an option for the Parties to refer a dispute to court where considered appropriate.

4.4.11 Quality

Both the Project Agreement and the Output Specification include provisions relating to Quality Management Systems and Quality Plans. The Service Provider, including sub-contractors, is required to have in place and meet the requirements of the Quality Plan. The Service Provider will appoint a Quality Manager to oversee and review the effective operation of the quality systems and to liaise with the Authority with respect to quality matters.

4.4.12 The Independent Certifier

4.4.12.1 The IWC and the Service Provider will make a joint appointment of an Independent Certifier (“IC”), who will act independently of the parties and will be responsible for certifying that the work to be undertaken during the CIP is to the standard required by the Authority’s Output Specification. Such certification will be necessary in order to enable the release of the milestone payments in accordance with the Project Agreement. A further IC appointment will also be made to certify that the condition of the Project Network assets during the later years of the Contract meets the handback requirements.

4.4.13 The Project Network

4.4.13.1 The IWC has mapped in GIS format the entirety of the Project Network enabling it to clearly set out the full and true extent of its network. This has enabled bidders to clearly assess the scope of the network. The Project Network has been sub-divided into specific Project Network Parts: Project Roads, Structures, Apparatus, Street Furniture, Vegetation and Off Street Car Parking areas. Each of the Project Network Parts is detailed on a separate GIS layer and are further sub-divided into more specific assets types, such as Carriageways, Footways, Cycleways, Bridges, Retaining Walls, Powered Apparatus and Non Powered Apparatus etc. A description of how the Project Network has been divided is shown at Appendix C14.

4.4.14 The IWC's data

- 4.4.14.1 The IWC set up an extranet system to support the procurement phase of the Project. The extranet system acted as the virtual data room and provided information to bidders throughout the procurement process. The IWC has comprehensive records of our inventory and asset condition. These were made available to bidders through the extranet. The IWC also has digitised maps in GIS format; these were also made available on the extranet. Old construction drawings, paper maps and other historic records were scanned and where appropriate digitised and geo-referenced into a GIS format and uploaded to the extranet. Further detail is provided in the Management Case in paragraph 6.9.1.

4.4.15 Staff

- 4.4.15.1 Given the scope of the Project, the Council anticipates the transfer of [REDACTED] staff which amounts to a release of an annual payroll obligation of [REDACTED].
- 4.4.15.2 The transfer of staff will take place in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE").
- 4.4.15.3 The IWC has successfully conducted TUPE transfers in the past with no ongoing obligations. The IWC has the necessary internal expertise within the Project Team, and also with the support of its Legal, Human Resources, Finance and Highways Departments to undertake the TUPE transfer without difficulty. The IWC has significant experience of successfully making TUPE transfers both out to the private sector and back into the IWC over many years.
- 4.4.15.4 The IWC is committed to open and transparent communications with staff and unions ensuring a good working relationship and has produced "A Basic Guide to TUPE" which has been shared with all staff who are eligible to

transfer. A copy of this guide is attached as Appendix C15.

- 4.4.15.5 The IWC has kept staff and unions informed of the Project throughout the procurement phase. Towards the end of the ISDS phase, all the bidders gave a presentation to staff at which staff, were able to ask questions about the transfer with the bidders. During the Preferred Bidder phase, more detailed discussion and one to one meetings will take place.
- 4.4.15.6 The IWC is committed to ensuring that equality and diversity and health and safety issues are paramount in its own and its partner's practices. As part of the IWC's pre-qualification process, the Project Team have thoroughly examined all bidders' diversity and health and safety policies to ensure that these are in place and embedded in the organisation's practice.
- 4.4.15.7 The Preferred Bidder will be offered the opportunity to enter into a Service Level Agreement with the Council's Payroll, HR and Legal departments either on a permanent or transitional basis to ensure continuity for transferring staff is maintained.
- 4.4.15.8 The IWC will facilitate any early secondment of key staff to the Preferred Bidder in advance of Service Commencement to assist in the mobilisation of the Contract. This will be particularly important in facilitating a smooth transfer.
- 4.4.15.9 As well as the staff considerations, the IWC maintained a list of current contractors to monitor any legal implications with regard to secondary TUPE that the Project may have and to ensure that businesses are notified of any implications on them upon which they will need to seek independent advice. In addition, where potential TUPE implications arise, the IWC facilitated contact between contractors and the Bidders for the Project to ensure a smooth transition is guaranteed. The Preferred Bidder has demonstrated a commitment to developing apprenticeship opportunities through joint working with Island-based schools and colleges to develop skills.

4.4.15.10 The IWC are retaining a core group of staff who will take responsibility for the management and oversight of the contract and maintain the residual functions. This will ensure that the IWC can monitor delivery, services and outputs. Further detail on the management of the contract is set out in the Management Case.

4.4.16 Pensions

4.4.16.1 The Preferred Bidder has chosen to apply for membership of the LGPS and the IWC's pension fund administrator has considered the position where the Preferred Bidder chooses to apply for admitted body status in the LGPS. A detailed account of the IWC's position and the process for such a situation can be found at Appendix C16.

4.4.16.2 However, in the event that the Preferred Bidder is unable to enter the LGPS, under the terms of TUPE they will be required to offer a pension broadly comparable to the IWC's Local Government Pension Scheme. A Bulk Transfer Agreement has been included as part of the Project Documents.

4.4.16.3 Broadly comparability relates to the protection of transferring employees' future pension rights. Assessment of whether a scheme is "broadly comparable" falls within the remit of the Government's Actuary Department whose principles are set out in "*Assessment of broad comparability of pension rights, Statement of practice by the Government Actuary, May 1999*" which is attached at Appendix C17.

4.4.17 Insurance

4.4.17.1 The IWC's current public liability insurance policy includes a deductible of [REDACTED]. As a result, the IWC effectively self-insures claims from its insurance reserves in full where the total value of the claim is less than [REDACTED] or paying the first [REDACTED] of larger claims. The handling of claims is undertaken jointly between the IWC's Insurance Unit and the IWC's

insurer. The IWC's highways claims experience over recent years is detailed in the Economic Case at paragraphs 3.6.6 and 3.6.8. The IWC self-insures the highways assets.

- 4.4.17.2 As the Highways Authority, the IWC will remain liable at law in respect of any claim made in respect of the Island's network. The Service Provider will arrange and continue to provide adequate insurance cover throughout the term of the contract to indemnify the IWC against all public liability claims arising from the highways network. These insurance arrangements will be subject to approval by the IWC annually. The Service Provider (either directly or through the insurer) will be responsible for the receipt, handling and determination of such claims. It is reasonable to assume that the volume of claims made will reduce as a result of the improved standard of the road and pavement surfaces (and that improvements in the inspection regime will also increase the repudiation rate for such claims).
- 4.4.17.3 The IWC has consulted its insurance advisor JLT Group. The IWC do not require the PFI Provider to insure the highway network against material damage. The rationale behind this decision is set out in the Financial Case, paragraph 5.2.6.

4.5 Conclusion

- 4.5.1.1 The IWC soft tested the market to ensure it had an attractive Project of interest to bidders. A robust procurement strategy was established, utilising the Competitive Dialogue process, allowing appropriate lead times for each stage. The IWC adhered to this timetable, and provided a wealth of information to the bidders throughout the procurement phase, providing real confidence about the scope and scale of the project. Key documentation for the Project such as the Output Specification, Payment Mechanism and Project Agreement were discussed at length with the bidders. The Project Documents were then refined during the procurement phase to accurately reflect the IWC's requirements, the market position, funding and the needs of

the Island. The IWC is confident that as a result of the thorough, robust and lengthy procurement process outlined above, the selected Preferred Bidder will be able to deliver and maintain the desired upgrade to the Project Network over the course of the 25 year Contract.

5. Financial Case

5.1 Introduction

- 5.1.1.1 The Department for Transport (DfT) and HM Treasury (HMT) approved the Isle of Wight Highways PFI Project (the Project) Outline Business Case (OBC) in February 2010. The Isle of Wight Council (IWC) was given approval for Private Finance Initiative (PFI) Credits of £364.6m in Net Present Value (NPV) terms.
- 5.1.1.2 Following the government's Comprehensive Spending Review (CSR) announcement in October 2010, the revenue support for the Project was reduced to £260m (NPV) in March 2011, formally notified by letter from the DfT dated 13 May 2011 (see Appendix F1). The IWC reflected the reduction in funding in an Addendum to the OBC submitted in October 2011 (see Appendix F2), which was approved by the DfT and HMT in March 2012 (see Appendix C1).
- 5.1.1.3 This Financial Case demonstrates how the financial model provided by the Preferred Bidder will be delivered within the IWC's required affordability envelope of £335m (NPV), before Capital Contributions, funded by the agreed level of revenue support from the DfT and the IWC's own contributions.

5.1.2 Reduced Affordability Envelope

- 5.1.2.1 The IWC has adopted a "Fence to Fence" approach to defining the Project scope and this is reflected in the Project Agreement (see Structure of the Contract at Appendix C9) and the Output Specification (see Appendix C12). The reduction in DfT resource grant and the IWC contribution has impacted on service delivery requirements and this was set out in the OBC Addendum dated October 2011, attached at Appendix F2. The IWC made a decision in principle that the "Fence to Fence" scope definition delivered the best

possible efficiencies by harnessing the synergies across a number of services. The reduction in funding, therefore, has had to be accommodated through varying the expected upgrade and service delivery standards during the Core Investment Period (CIP), Lifecycle Replacement and Operational and Maintenance phases, rather than through de-scoping.

5.1.2.2 The changes to the Project to meet the revised affordability were achieved by:

- A reduction in the Wight Carriageway Condition Index (WCCI) (see Appendix S2 for details of WCCI) from an index of 18 to an index of 15.5/15 for H1 to H4. The skid policy was also revised to reflect local conditions;
- An alteration in the Wight Footway Condition Index (WFCI) (see Appendix S2 for details of WFCI) to reduce trigger levels for treatments, consequently delivering lower levels of treatments;
- A reduction in the Bridge Condition Index (BCI) (see paragraph 2.11.5.7 for details of BCI) for Structures;
- A reduction in the Cycleway upgrade standard;
- Requiring innovative proprietary treatments for coal tar eliminating resurfacing disposal costs;
- Requiring the reuse and recycling of materials and the slip form process of kerb formation which was introduced for kerbs and channels;
- Introducing a LED lighting solution for street lighting, signs and bollards, together with a 'like for like' replacement strategy, and removing the need for 'deemed to comply' columns to be replaced;
- Reducing Street Furniture costs by changing illuminated signs to non-illuminated reflective signs where possible;
- The introduction of a Central Control Room for CCTV, lighting and traffic signals reduces scouting/inspection/travel costs; and

- Reducing service standards for the Operation and Maintenance services.

5.2 Achieving better value through Competitive Dialogue

5.2.1 Financial Themes

5.2.1.1 The IWC utilised all stages of the Competitive Dialogue process as described in paragraph 4.3.4 to improve the commercial offers received from the bidders, striking a balance between quality, price, and risk transfer. The financial dialogue sessions were focussed around the following key themes of the financial evaluation:

- Deliverability and Adequacy of Funding Arrangements;
- Robustness of Financial Projections;
- The Payment Mechanism;
- Cost Benefits/Efficiency Gains;
- Insurance; and
- Bid Back items.

5.2.2 Deliverability and Adequacy of Funding Arrangements

5.2.2.1 This dialogue theme focused on the credibility of each bidder's funding structure and the efficiency of their funding proposals. The IWC sought evidence of the availability and sufficiency of finance and considered the extent of involvement of funders (debt and equity). The IWC also considered the terms of finance for each financing instrument including any conditionality attached, to assess their acceptability. Financial Advisor support and level of involvement were also considered under this theme to give the IWC the assurance required of the bidders' proposals. At each of the procurement stages, the IWC was assured that the financial submissions from the bidders

contained no material risk of failure to achieve Financial Close due to inadequate funding arrangements. The Preferred Bidder's funding arrangements conform to the IWC requirements in relation to Deliverability and Adequacy of Funding Arrangements for achieving a timely Financial Close.

5.2.3 Robustness of Financial Projections

- 5.2.3.1 The IWC considered the bidders' proposed structure of the Financial Model and the technical input costs for the required upgrade, operations and maintenance under this theme. The robustness of the bidders' costs were further scrutinised by setting potential extreme cost increasing scenarios in the form of sensitivities. The bidders' cost envelope also included the impact of taxation, Corporation Tax and Stamp Duty Land Tax relating to the provision of the depot.
- 5.2.3.2 At the Call for Final Tenders (CFT) stage, the funders for the Preferred Bidder set their own sensitivities in addition to the ones tested by the IWC at earlier stages; these have been scrutinised by the funders as well as IWC's own financial advisors, PricewaterhouseCoopers (PwC), to confirm the robustness of the proposals.
- 5.2.3.3 The costs and the funding proposals have been built into the Preferred Bidder's Financial Model which will be independently audited by [REDACTED] prior to execution of the Contract. The IWC's financial advisors, PwC, have reviewed the robustness and adequacy of the Financial Model. The Preferred Bidder's financial projections of costs are robust and are consistent with the technical solutions proposed in the Method Statements (see paragraph 2.5.17.1) and pose no material risk of failure to reaching Financial Close in August 2012.

5.2.4 The Payment Mechanism

- 5.2.4.1 The Payment Mechanism (see Appendix C13) sets out the methodology under the Contract for making payments to the Service Provider for services received, consistent with the requirements of the Output Specification. The service payments are made in the form of a Unitary Charge (UC) payment, starting at 70% of the UC at the beginning of the CIP, and reaching the maximum 100% of the UC at the end of the seven year CIP. The stepping up of the UC is linked to the fourteen performance milestones for each of the six districts on the Island. The Payment Mechanism sets out the process for calculating the payment to the Service Provider, including the UC and any adjustments, both positive and negative, that may be due to variations to the Contract, performance adjustments, carbon and water adjustments, call-off services, energy payments, accruals, de-accruals, and indexation.
- 5.2.4.2 The Isle of Wight Project Network has comparatively limited diversionary routes compared to the mainland. The Preferred Bidder's programme aims to manage the available road space to achieve a balance between the needs of the Island's travelling public (including tourists) and the requirements for road closures to upgrade, operate and maintain the Project Network. An Availability Matrix has been developed and this sets out constraints for road closures during summer, winter, day, night, weekday, weekend, peak and non-peak hours traffic flows and public holiday availability of the Project Network for road closure. The Availability Matrix also takes account of the road hierarchy, rural or urban nature of the road, proximity to tourist destinations and special events on the Island. A copy of the Availability Matrix is contained within the Payment Mechanism attached at Appendix C13. Outside the deemed available periods defined in the Availability Matrix, an Availability Adjustment, akin to a lane rental charging system, applies. The Preferred Bidder solution conforms to this Availability Matrix requirement, helping to reduce potential delays during improvement works and this has acted as a catalyst to improve the overall efficiency of service delivery of its solution.

5.2.4.3 The Payment Mechanism includes a performance management process made up of Milestone Default Termination Points (MDTP) and Service Default Termination Points (SDTP). MDTPs are applied when a Certificate of Completion has not been issued by the Planned Milestone Completion Date during the CIP, and termination for Service Provider Default is triggered when 4 points are accumulated (see also paragraph 4.4.6.2). SDTPs are applied for non-performance of the Output Specification requirements and three thresholds have been set that could eventually lead to early termination of the Contract. These trigger levels, remedial action plans and wipe clean of termination points on removal of poor performing sub-contractors were dialogued in detail and the final requirements set in the Contract have been accepted by the Preferred Bidder.

5.2.5 Cost Benefits/Efficiency Gains

5.2.5.1 The IWC's approach to this Project has been to seek innovation in all areas of the bid at each of the procurement stages. The dialogue process helped to further reinforce that objective and a number of innovations, some promoted by the IWC and others by the bidders, have now come to fruition. The following are examples of the innovations that form part of the Preferred Bidder's offer and these innovations have helped towards reducing the cost of the Project and, therefore, improved its affordability: **This following section has been removed as it contains commercially sensitive information**

5.2.6 Insurance

5.2.6.1 The IWC does not currently insure its Project Network for Material Damage and continuing with this approach does not change the risk transfer to the Service Provider. The IWC has reviewed the benefits and dis-benefits of insuring the Project Network. The non-insured Material Damage option was discussed with the DfT and with HMT/IUK and was accepted as a value for money approach for the three pathfinder projects. The IWC has also considered the Material Damage insured option used by the Portsmouth City

Council Highways PFI Project and non-insured option used by the Birmingham City Council Highways PFI Project to assess the value of these two approaches. At the Invitation to Submit Detailed Solutions stage of the procurement process (ISDS), the IWC requested bidders to consider both an insured and an uninsured solution so that the price difference could be assessed to determine the best option. All bidders advised that an uninsured solution offered best Value for Money. The uninsured solution has now been approved by the DfT and the HMT/IUK as a derogation to SoPC4 (see Appendix C11). The Preferred Bidder solution is therefore on the basis of no Material Damage insurance requirement with a first loss damage cap of [REDACTED] (the Material Damage limit). The Material Damage Limit is a “free” self-insurance that the Service Provider is prepared to accept without the need for an external insurance policy.

- 5.2.6.2 The Service Provider is required to take out and maintain Contractors “All Risk” Insurance, Public Liability Insurance and Delay in Start-Up Insurance, as discussed in Appendix F3. There is no requirement for the Service Provider to insure against material damage to the Project Network as discussed in 5.2.6.1 above, although the Service Provider is required to take out Property Damage Insurance and Business Interruption Insurance in respect of damage to depots.

5.2.7 Bid Back items

- 5.2.7.1 The IWC set a number of items with flexibility for bidders to offer their own pricing and limits; these were set as “bid back” items and are summarised below:

- The ‘x’ factor – the variable element of the Annual Unitary Charge to which indexation will apply;
- Material Damage Limit (Clause 68) – the first loss damage cap in 5.3.6.1 above;
- Threshold Equity Exit IRRs (Clause 86) – a value 10% above the

nominal post-Service Provider tax pre-Shareholder tax base case equity IRR in the financial model at Financial Close;

- Threshold Shareholder Loan Exit IRR (Clause 86) – the nominal base case Shareholder Loan IRR in the financial model at Financial Close;
- Insurance details (Schedule 6);
- Powered Apparatus Energy Consumption (Schedule 8) – annual kwh forecasts;
- Powered Apparatus Energy Price (Schedule 8) – annual price forecasts;
- Milestone Completion Criteria (Schedule 14) – the WCCI and WFCI to be achieved in order for each milestone to be signed off;
- Certified Milestone Factor – the increment for each of the 14 milestones to be applied to the Unitary Charge until 100% is achieved;
- Non-Contestable Works prices (Schedule 16) – prices for connections, dis-connections and transfers;
- Catalogue prices and Project Management Fees (Schedule 17) – amounts to be charged for works outside the Unitary Charge, and fees associated with the Change Protocol;
- The amounts to apply for each asset under Accruals and De-Accruals (Schedule 18); and
- Bidder specific Commercially Sensitive Information (Schedule 28).

5.2.7.2 The IWC considered that energy price and consumption risk could be passed to the Service Provider to promote a solution that is in line with the Eco Island aspirations for the Isle of Wight (see paragraph 2.2.5). Although, initially seen as a major deviation from previous projects, the bidders and their funders were content to take this risk following detailed dialogue.

5.2.8 Funder involvement in dialogue

- 5.2.8.1 Equity shareholders for the bidders were part of the bidder dialogue teams during all financial discussions. The IWC also set up a dedicated dialogue session during each procurement phase to meet and discuss funding issues, due-diligence, risk transfer and wider market movements. The Island's geology provides a particular challenge to all bidders; the IWC's risk share approach for the geology of a defined area and geotechnical solutions of specific locations was discussed in detail and accepted as a fair mechanism for operating a long term contract. The funders were able to bring forward their own concerns for the IWC's reflection, their own funding constraints, due diligence issues, and credit approval process, and provide updates on movements in the financial markets. The IWC was keen to ensure that there was enough competition between the funding group from each of the bidders and was able to compare terms offered, with its advisor's knowledge of the markets.
- 5.2.8.2 This has enabled the IWC to ensure that the Preferred Bidder's offer meets the needs of the Project, is credible, robust and deliverable.

5.3 Preferred Bidder – breakdown of costs

- 5.3.1.1 The IWC required all bidders to submit detailed costings for the service delivery of the twenty five year contract term, consistent with the commitments given in the Technical Method Statements (see section 2.5.17). These costs were reviewed in detail, benchmarked against IWC's own costings and challenged, where appropriate, in the dialogue sessions. This level of detailed analysis provided total transparency of the proposed solutions and their costs. In addition, the IWC also required the bidders to submit a detailed priced schedule of rates to enable future variations to be priced. Bidders were also required to price the cost of accruing and de-accruing a number of key items and services to facilitate changes to the Project Network during the Contract period. The detailed costings form the

input costs to the Financial Model and the Project Team were therefore able to establish a direct link between the current state of the Project Network, proposed upgrade solutions, their costs and the funding requirements. The Preferred Bidder’s Financial Model is attached at Appendix F4. A high-level summary of the Preferred Bidder’s costings, at 2012 prices, unindexed, is set out in the table below in Figure 39.

	CIP	Lifecycle Replacement	Operation and Maintenance
	£m	£m	£m

Figure 39 Preferred Bidder breakdown of costs

Table removed due to commercially sensitive information

5.3.1.2 Detail of the IWC’s revised assessment of Base Costs (used for the Public Sector Comparator (PSC) – see paragraph 5.8.1.1 below, at un-indexed 2009 prices, is attached at Appendix F5. In summary these are:

• Core Investment Period (seven years)	
• Authority funded costs (CIP)	
• Total CIP	£106.07m
• Lifecycle costs (18 years)	
• Authority funded costs (Lifecycle)	
• Total Lifecycle	£125.59m
• Operation and Maintenance (25 years)	
• Authority funded costs (O&M)	
• Contract Management Costs (25 years)	
• Total O&M/contract management	£133.35m

██████████ The Preferred Bidder has taken a different approach to treating, upgrading and maintaining the Project Network; the proposed upgrade programme in the CIP intends to treat █████ of the network to a standard higher than expected from the Output Specification.

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5.4 Affordability of the Project

5.4.1.1 The Project is funded by DfT resource grant and the IWC's own contributions. The DfT's resource grant profile was agreed in the letter dated 13 May 2011 (see Appendix F1) and fixed, in cash terms, for the duration of the Contract. The IWC contribution, on the other hand, will be the variable amount to meet changes due to inflation, variations and other contractual changes during the life of the project. The annual profile of grant agreed by the DfT for this project is shown in Figure 40 below:

Year	Grant
2013/14	£15.3 million
2014/15	£17.2 million
2015/16	£19.0 million
2016/17 to 2036/37	£19.8 million
2037/38	£19.0 million

Figure 40 - DfT resource allocation

5.4.1.2 This grant allocation was established at a time when funding markets were less constrained than they are now and terms achievable were better than currently.

5.4.1.3 In an attempt to mitigate any movement in terms from Invitation to Submit Refined Solutions (ISRS) to Financial Close, at CFT the IWC decided to increase the starting Unitary Charge from 60% to 70%. Capital Contributions from the IWC were introduced at the end of year three (£10m cash) and year ten (£20m cash). The IWC proposals were included as derogations in the Interim Financial Business Case (IFBC) (see Appendix F6) submitted in January 2012 and agreed with IUK. The two payments are linked to predetermined milestones set out in the Output Specification. The achievement of these milestones will be certified by the Independent Certifier, before the capital contributions are made.

5.4.1.4 The current expected IWC contribution in 2013 prices is [REDACTED] in the first year of the Project. At the OBC approval stage it was agreed that the IWC will fund the upgrade/maintenance of the following assets:

- CCTV renewals;
- CCTV operation and maintenance;
- Car Park resurfacing; and
- Off-street parking meter replacement.

5.4.1.5 A comparison of the IWC estimate of these costs (see paragraph 5.3.1.2) and the Preferred Bidder estimate of costs (see Figure 39) is as follows:

	IWC estimate (unindexed 2009 prices) £m	Preferred Bidder (2012 prices) £m
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Figure 41- Comparison of the costs of IWC funded items

Table removed due to commercially sensitive information

5.4.1.6 The IWC's annual payment of [REDACTED] p.a. meets the full cost of upgrade and maintenance of these items. The total IWC contribution is therefore made of

its contribution for the PFI project scope agreed with the DfT [REDACTED] p.a.) and the additional scope items funded solely by the IWC [REDACTED] p.a.) making a total contribution of [REDACTED].

5.4.1.7 The inclusion of the IWC funded scope items has been beneficial in getting overall value for money synergies in service delivery.

5.4.1.8 The comparison of the current expected IWC contribution to that presented in the IFBC is shown in Figure 42 below. The expected IWC contribution stated in the IFBC was in 2009 prices and was based on the highest NPV bid submitted at ISRS. The current expected IWC contribution is in 2013 prices, is based on [the Preferred Bidder's CFT bid] adjusted for the starting UC of 70% and Capital Contributions as discussed in paragraph 5.4.1.3 above.

	IWC contribution p.a. 2009 prices	IWC contribution p.a. 2013 prices
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Figure 42 - IWC Contribution

Table removed due to commercially sensitive information

The Section 151 Officer letter attached at Appendix F7 confirms the IWC contribution to this Project.

5.4.1.9 The financial modelling for the Project is based on a deflator of 2.5% as advised by HM Treasury and used as a proxy for Retail Price Index excluding mortgages (RPIx). Given that the IWC will assume all of the inflation risk over the 25 year period, the impact of inflation exceeding the assumed rate could be significant in later years of the Contract. As mitigation, an option to use RPI swaps was investigated to give certainty of future cash flows; however, the assessment proved that unless the RPI remained higher than 4.1% over the life of the Project, this is unlikely to offer better value for money. The IWC has, therefore, made provision within its

own resources to ensure that it does not have an affordability gap should inflation be higher than 2.5%.

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5.4.2.3 ██████████

5.5 Preferred Bidder and Bankability

5.5.1.1 The Project has a senior debt requirement, including Equity Bridge, of ██████████ and a debt funding competition is considered unnecessary as competition has been maintained between the banks in the funding group, and the reserve banks, throughout the procurement process. There is sufficient long-term debt commitment from the banks supporting the Preferred Bidder as shown in table in Figure 43 below:



Figure 43 - Preferred Bidder lending group

Table/figure removed due to commercially sensitive information

- 5.5.1.2 None of the lenders considered this as a complex or high risk project and indicated confidence of being able to fund the Project based on the risk share approach set out in the Project Agreement and discussed between the IWC and the bidders.

5.6 Financial Market

- 5.6.1.1 Since the initial approval of the OBC in February 2010, there has been significant turmoil in the funding markets; a number of banks have withdrawn from long-term lending and/or UK PFI lending and the lending terms have changed. Whilst this has not impacted this Project adversely in terms of sufficient coverage of banks willing to lend to the Project, the financing terms have increased by way of increased margins and cover ratios. The table in Figure 41 below maps the movements in financing terms through the procurement process. The IWC discussed a number of mitigation options with the DfT, as part of its Interim Final Business Case (IFBC) submission. These included amending the starting level of Unitary Charge, and introducing Capital Contributions to the Project to reduce the affordability envelope (see paragraph 5.4.1.3). These options were approved by the DfT and HMT/IUK as part of the IFBC approval (see Appendix C3).

5.7 Financial Terms

- 5.7.1.1 In December 2010, there was a substantial revision of the OBC to reflect reductions in scope required by the DfT following the CSR in October 2010. An addendum to the OBC was produced to reflect the revised Project affordability based on market conditions at that time. Since December 2010, there has been considerable turmoil in the world financial markets; these have had minor impact on the financing terms available for this Project; the changes in terms over the procurement periods between ISDS (May 2011) and CFT (April 2012) are mapped in the table at Figure 44. Whilst terms

themselves have remained relatively stable, there has been considerable uncertainty around how long lenders will be able to hold these terms.



5.7.1.2 The movement in terms from OBC to CFT is shown in Figure 44 below (some commercially sensitive data removed):

	IW Council Original OBC (Dec 2009)	IW Council Addendum OBC (Oct 2011)	Bidder A – ISDS (May 2011)	Bidder A – ISRS (Dec 2011)	Bidder A – CFT (April 2012)
Term	23 years	23.5 years			
Debt Tail	1.0 years	1.5 years			
Senior Debt Swap Rate	4.50% + 0.50% buffer = 5.00%	3.74% + 0.5% buffer = 4.24%			
Swap Credit Spread	0.30%	0.25%			
Margin - CIP	2.50%	2.50%			
Margin – Operations yrs 8-10	3.00%	2.50%			
Margin – Operations yrs 11 onwards	3.50%	2.75%			
Arrangement Fee	2.50%	2.00%			
Commitment Fee	50% of CIP margin	50% of margin			
Equity Bridge Arrangement Fee, Commitment Fee, Margin	Same as Senior Debt	Same as Senior Debt			
Equity Bridge Swap Rate	4.0% + 0.5% buffer = 4.5%	1.99% + 0.5% buffer = 2.49%			
Equity Bridge Letter of Credit	2.00%	2.00%			
Minimum ADSCR	1.30	1.30			
Minimum LLCR	1.35	1.35			
Major Maintenance Reserve Account	100%, 66%, 33% following three years' costs	100%, 66%, 33% following three years' costs			

Figure 44 - Movement in terms

- 5.7.1.3 Since the original OBC was submitted in December 2009, there has been a steady decline in underlying swap rates. Following the IWC's IFBC submission, the changes to swap rates was discussed with the DfT on 15 March 2012. It was agreed in principle that to the extent that swap rates are lower at Financial Close than those reflected in the Addendum to the OBC submitted in October 2011, any reduction in price associated with this will be first used to offset any increase in price resulting from deterioration in lender margins over the same period, before any reduction in the final DfT revenue grant is considered.

5.8 Value for Money

- 5.8.1.1 The IWC has followed HMT guidance in demonstrating Value for Money (VfM) from the PFI option as compared to the PSC option (also referred to as the Conventional Procurement 'CP' option in the HM Treasury guidance). The IWC adopted the following process in order to quantitatively assess Value for Money.
- 5.8.1.2 A series of discussions and risk workshops were held to identify and quantify the key contract risks. A long list of potential risks was developed and consideration given to whether the risk would be retained, transferred, or shared under the Project, and whether there were any actions the IWC could take to mitigate the risks. The likely impact of each risk was scored, both before and after any action the IWC may take to mitigate the risk.
- 5.8.1.3 Optimism Bias (OB) has been calculated in accordance with CLG guidance note, "Adjusting for Optimism Bias in FRS PFI projects" (March 2007). The main strategies for reducing OB, including stakeholder consultation, accurate costing and project and risk management, have been implemented and a series of risk workshops have been undertaken to determine the OB levels to be included in the VfM analysis.
- 5.8.1.4 The figures that have been applied for optimism bias are set out in Figure 45

below:

Expenditure Category	OB Pre Final Business Case	OB Post Final Business Case
Initial capex	5%	36.6%
Lifecycle	7%	7.3%
Opex	5%	18.9%
Public sector transaction costs	5%	10.0%

Figure 45 - Optimism Bias

5.8.1.5 The “OB Post Final Business Case” percentages added to the PSC costs and set out in the table above were agreed at the risk workshops and also include a 5% ‘residual risk’ allowance. The PSC ‘residual risk’ was considered to be 5% in total and was allocated to the CIP, Lifecycle and Operation & Maintenance cost categories pro-rata to their contribution to the overall risk total.

5.8.1.6 However, the quantification arising from the risk workshops does not cover all possible risks; it focuses on the quantification of the top 14 risks. There is therefore a possibility that

- A significant risk has been missed; and/or
- The quantification of the risks is wrong.

5.8.1.7 The risk of missing out something significant is very small. The IWC has used a number of precedents in determining the risk register and had significant input from all advisors, bringing in a wealth of experience from similar PFI projects. Risks not within the top 14 are covered by qualitative analysis which indicates that they have minimal value and it is not necessary to quantify them separately.

- 5.8.1.8 The risk that the quantification of risks may be wrong is clearly real; quantification is essentially a series of informed judgements. However, in the IWC's view, the risk is just as likely to be higher as it is to be lower than quantified, with any variances netted out, and therefore its expected value is zero.
- 5.8.1.9 On the basis of these factors, the IWC has taken a judgement to add a "residual" optimism bias figure of 5% to the numbers arising from the detailed risk workshops.
- 5.8.1.10 A Monte Carlo analysis (see Appendix F9) of the outputs from the risk workshops for the CIP, Lifecycle Replacement and O&M phases was carried out to determine the Post Final Business Case Optimism Bias. Figure 46 below provides a summary of the Risk/Optimism Bias assessment.

	Pre OB	PSC (Post-OB)	PFI (Post-OB)
CIP	5%	36.5%	10.7%
Lifecycle	7%	7.3%	6.1%
O&M	5%	18.9%	4.1%

Figure 46- Risk/Optimism Bias assessment

- 5.8.1.11 The results of this exercise were used as inputs to the Treasury VfM model and the PFI option was found to be 12.5% against the PSC option. The details of this exercise and the detailed assumptions sheet are attached at Appendix F10.

5.9 View on Accounting Treatment

- 5.9.1.1 Following the Department for Communities and Local Government's "Accounting opinion requirements for PFI credits" issued on 18 November 2008, the IWC considers that the Project will be accounted for in accordance with IFRS principles as adopted in CIPFA's Code of Practice on Local

Authority Accounting for 2010/11.

5.9.1.2 IFRS will result in the Project being accounted for on the IWC balance sheet.

5.9.1.3 Local authorities are required to include, in their Final Business Case, a view on the likely treatment in the National Accounts, based on Part VI.5 of the 2010 Edition of the European Statistical Authority's Manual on Government Deficit and Debt (MGDD 2010). This is a risk based analysis and states that where a public body grants an arrangement to purchase services from the private sector on the basis of dedicated assets, the asset and liability will be off balance sheet in the National Accounts where construction and either availability or demand risk are transferred to the private sector, and the amount of risk transferred may significantly impact the private sector profit margin.

5.9.1.4 The report attached at Appendix F11 illustrates how the Project is likely to meet the definition of a Public-Private Partnership (PPP) under section V1.5 of MGDD 2010 and concludes that the Project will be off balance sheet in the National Accounts if implemented as currently anticipated and that DfT should account for the resource grant as a revenue grant.

5.10 Summary

Table removed due to commercially sensitive information

5.11 Conclusion

5.11.1.1 The IWC has conducted a rigorous and thorough procurement process to achieve a credible and value for money financial offer from the Preferred Bidder.

[REDACTED]

[REDACTED] The IWC will work with the DfT and HMT to achieve timely approval of this Final Business Case to reach Financial Close within the confirmed funding hold period.

6. Management Case

6.1 Introduction

- 6.1.1.1 This Management Case sets out the governance arrangements for the Isle of Wight Highways PFI Project (the Project) from inception to the selection of the Preferred Bidder and through to Service Commencement. It also sets out planned changes to governance and internal structures, post Service Commencement. It includes the contribution made by the advisors appointed to assist the Isle of Wight Council (IWC) in the delivery of this Project. It sets out the delivery plan and discusses the approaches during both the contract commencement and contract monitoring phases. It also details the IWC's approach to stakeholder, and data management and looks forward by planning for a post implementation review, benefits realisation management and contractual contingency. Finally, this Management Case provides the Department for Transport (DfT) and HM Treasury (HMT) the assurance that the procurement phase of this Project has been effectively managed to successfully select the Preferred Bidder and plans are in place for effective Contract Management.

6.2 Project Management & Project Governance Structure

6.2.1 Project Management approach

- 6.2.1.1 This Project has developed a project management approach based on Prince2 methodology, but adapted and streamlined by the Project Team for the stages of procurement under the Project Management and Governance structure outlined below.

6.2.2 Sponsorship and Support

- 6.2.2.1 Ever since the idea of using a PFI project to rejuvenate the Isle of Wight's highway network was suggested in 2004, there has been cross-party political

support. Political control has changed during that period and the present Conservative Administration have set this as one of the key priorities for the IWC. The Administration has set aside £7.6 million budget for the procurement phase and is the only Project/delivery area that did not have a budget reduction following the funding reductions to local authorities announced as part of the government's Comprehensive Spending Review (CSR). The Project has now progressed to the appointment of a Preferred Bidder and has remained within the budget profile for this stage of the Project. The remaining funds are adequate to deliver the procurement phase to a conclusion with contingency for any potential delays of up to six months. This budget has been efficiently managed to date and spend reported regularly to the Project Board and the Member Review Board (see sections 6.2.7 and 6.2.8). The costs incurred by the Project include internal staffing, external advisor support, accommodation costs, project networking, training, ICT, asset and condition surveys, and communications/ stakeholder management. The current spend against the initial budget and available funding to Service Commencement is attached at Appendix M8.

- 6.2.2.2 The IWC has ensured that local organisations including the Isle of Wight Economic Partners Health and Wellbeing Board, the Quality Transport Partnership, the Chamber of Commerce, AONB, the Environment Agency, and other environmental organisations, have been informed about the Project's intentions and all are supportive of the Project.

6.2.3 Pre-contract award governance

- 6.2.3.1 The Project organisational structure for the stages prior to contract commencement is shown in Figure 47.

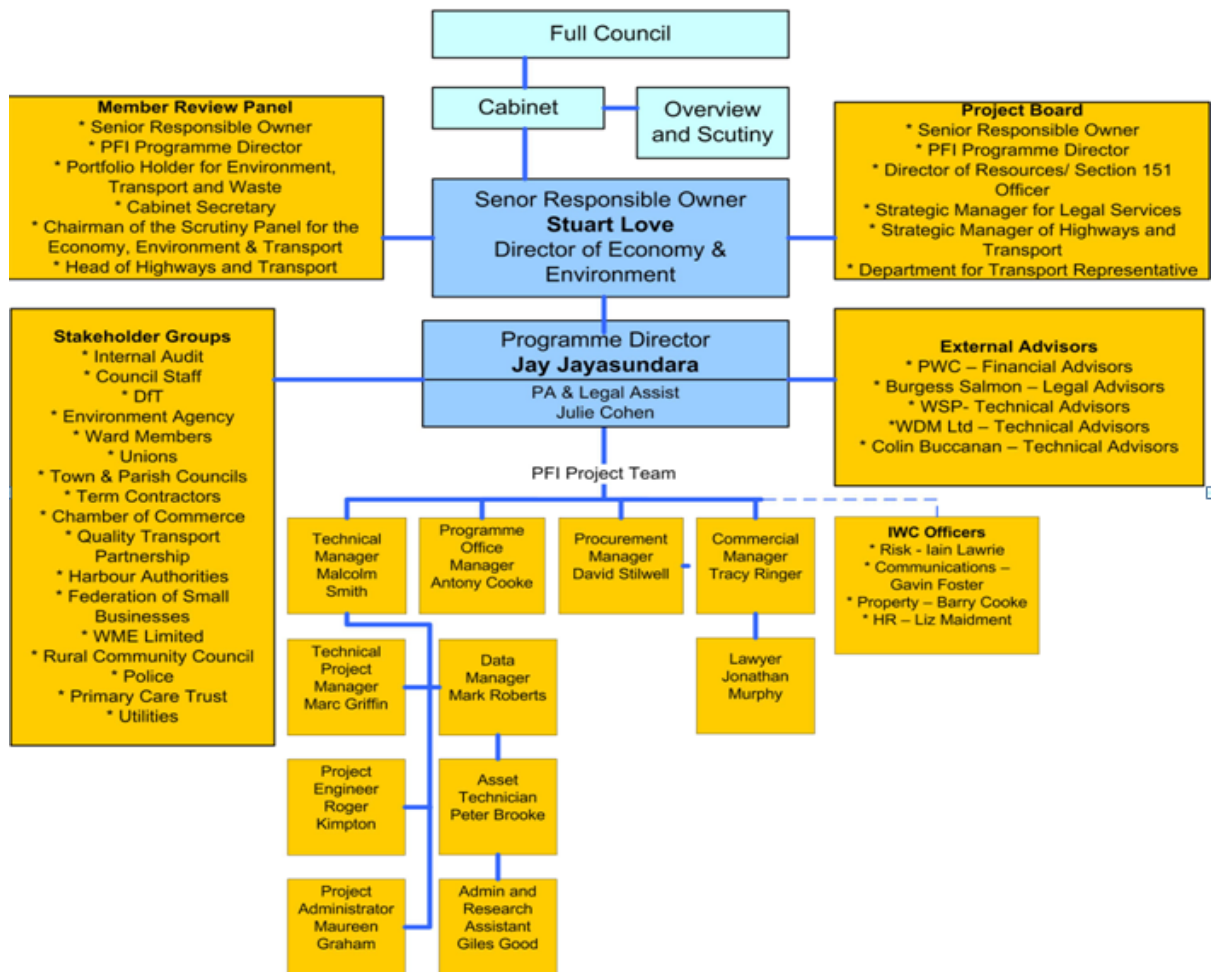


Figure 47 IWC PFI Project Organisational Structure

6.2.4 Full Council

- 6.2.4.1 Full Council meets once a month and is responsible for adopting plans and strategies and also identifying and allocating financial resources. Quarterly Progress updates are provided to the Full Council.

6.2.5 Cabinet

- 6.2.5.1 The IWC Cabinet consists of the Leader and a number of councillors appointed as Cabinet members with portfolios, nominated by the Leader. The Cabinet in its Executive Role has the overall responsibility for Council's

delivery including that of this Project. It has delegated the decision making at all stages to the project Sponsor and the Programme Director except at Financial Close. The Cabinet receives quarterly progress report from the Project, special presentations at key stages to maintain their involvement, and continued support for the Project. The Cabinet has the ultimate responsibility for committing the IWC to a 25 year funding stream for the Contract, and this includes approving documents such as the OBC and FBC.

6.2.6 Overview and Scrutiny Committee

- 6.2.6.1 The Overview and Scrutiny Committee undertake high level scrutiny into the budget and policy framework of the IWC at a political and strategic level. It adopts and delivers a work programme reflecting the priorities of the administration, corporate strategic objectives and the priorities of scrutiny. The Overview and Scrutiny Committee for the Economy and Environment usually have bi-monthly meetings which may be attended by the public. The Scrutiny Panels will deliver evidence based policy recommendations which can be adopted by the Cabinet or Full Council. These recommendations will also be outcome focussed, strategically coherent, clearly stated, and will have identified the resources necessary to deliver them.

6.2.7 Member Review Board

- 6.2.7.1 The Member Review Board (MRB) for this Project consists of the Portfolio Holder for Environment, and Transport and Waste, the Cabinet Secretary, Portfolio Holder for Major Projects, the Chairman of the Scrutiny Panel for the Economy, Environment & Transport, the Senior Responsible Owner, and the Programme Director. The Strategic Manager of Highways and Transport is an observer member. The MRB meets every two months to update members on progress and maintain dialogue between Members and the Project Team. The Member Review Board Terms of Reference are attached at Appendix M19.

6.2.8 Project Board

- 6.2.8.1 The Project Board has delegated authority to make relevant decisions affecting the procurement of the Project and, as such, is the main decision making body for the Project. It approves the scope of the Project before submission to the Cabinet and key procurement decisions.
- 6.2.8.2 Although day-to-day responsibility for managing the Project has been delegated to the Programme Director, the Project Board acts as the final arbiter for issues referred upwards by the Programme Director, either because they fall outside the remit of the Programme Director, or because he is unable to resolve a given issue.
- 6.2.8.3 The Project Board, chaired by the Senior Responsible Owner and including the Programme Director, the Strategic Manager for Highways and Transportation, the Section 151 Officer/Director of Resources, the Strategic Manager for Legal Services and a DfT representative, meets once a month, or more frequently by agreement when more immediate decisions are required. The specific responsibilities of the Project Board are:
- to ensure sufficient resources are allocated including human, physical and financial resources
 - to review the Project's progress against its Project plan.
 - to monitor the Project's budget.
 - to ensure a robust quality management process is in place
 - to ensure Affordability, VfM and Risk are identified, monitored and managed:
 - to report to the IWC on the Project's progress, referring appropriate issues to Cabinet or Full Council, for approval as required.
 - to appoint external advisors as required.
 - to champion excellent design, ensuring that it features as a priority in

the selection criteria developed as part of the procurement process.

- to act as ambassadors for this project, and the procurement and delivery of the facilities thus provided.

From the start of the project until it enters procurement:

- to agree the objectives and scope of this Project
- to sign off the Final Business Case before submission to Cabinet

From the start of procurement until contract commencement:

- to agree the procurement plan.
- to oversee the progress of the procurement process including the timing of the OJEU notice; short-listing of bidders; the timing of the ISOS, ISDS, ISRS and CFT; selection of the Preferred Bidder.
- to agree the contents of key procurement and contractual documents including the OJEU notice; Output Specification; Project Agreement; Payment Mechanism.
- to ensure that a pre-contract risk review is completed.
- approval of the Final Business Case.
- to recommend the award of contract.

6.2.8.4 Senior Responsible Owner. The Director of Economy and Environment and Neighbourhoods is the Senior Responsible Owner and, therefore, the lead officer ultimately responsible for the Project.

6.3 Project Team Structure

6.3.1 Procurement Team

6.3.1.1 Figure 48 below illustrates how the Project Team leading up to OBC was organised with key responsibilities shown for each work stream.

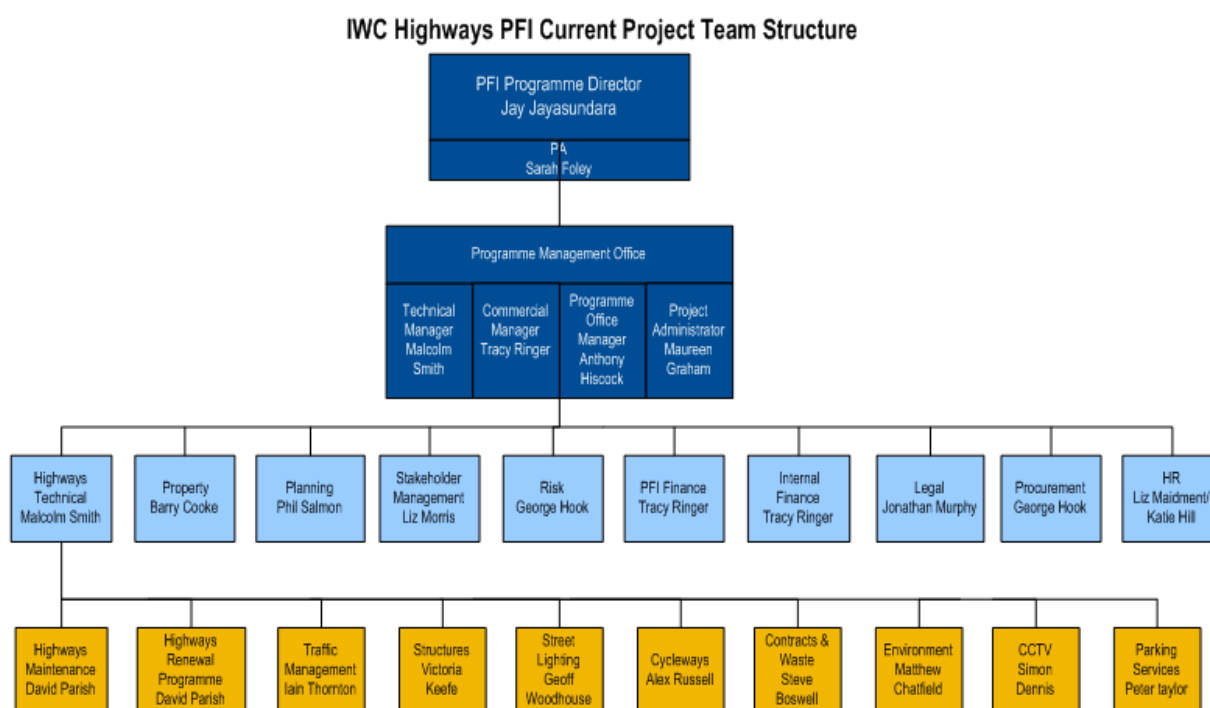


Figure 48 Project Team in OBC preparation

6.3.1.2 This team was supported, as appropriate, by specialists drawn from other relevant disciplines within the IWC including Property, Planning, Stakeholder Management, Risk, Legal, Procurement, and Human Resources.

6.3.1.3 With regard to the technical work stream there are a number of specialists, drawn from the IWC's Environment and Neighbourhoods (Now Economy and Environment) Directorate, who assisted with information around the relevant assets/services including Highways Maintenance, Highways Renewal

Programme, Traffic Management, Structures, Street Lighting, Cycleways, Parking Services, Contracts and Waste, Environment, and CCTV. Although these staff have contributed on a part-time, ad-hoc basis, they have and continue to be committed to the Project.

6.3.2 Procurement Phase

6.3.2.1 The IWC increased the full time resources of the Project Team, post-OBC to support the procurement phase. This included the addition of full-time legal, procurement, and data management specialists, and two additional technical resources. The Project's Lawyer and Data Manager joined the team in September 2009 and the Procurement Manager joined in January 2010. The two additional Technical Support team members were recruited in 2010. The Project Team now has 13 full time staff dedicated to this project though to the end of the procurement phase. This team is fully supported by appropriate IWC departments as required. The team structure for the procurement phase is shown in Figure 49 below.

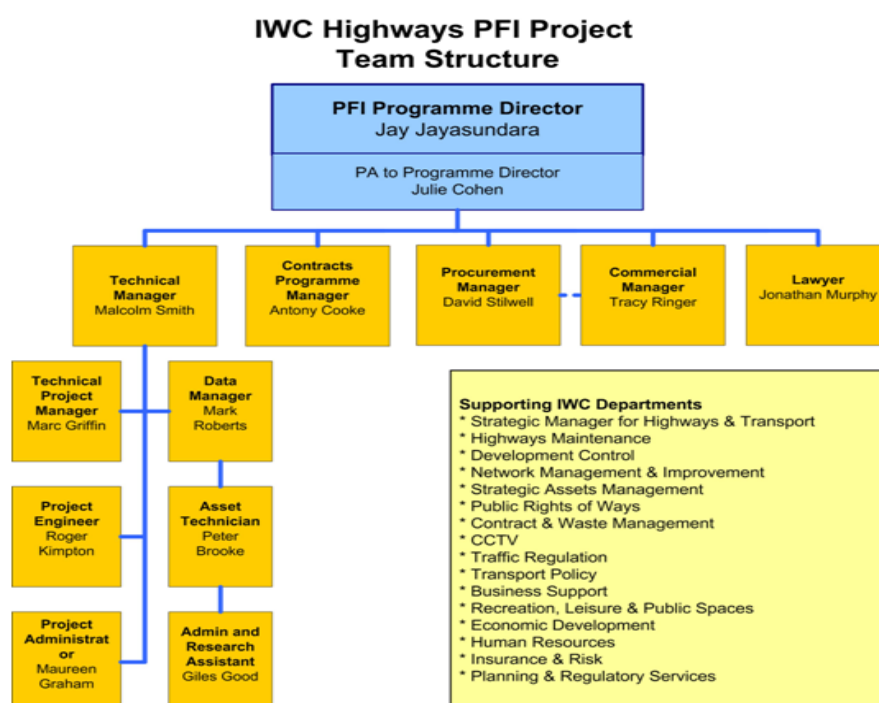


Figure 49 - Project Team Organisational Structure in Procurement

6.3.3 PFI Programme Director

- 6.3.3.1 PFI Programme Director, Jay Jayasundara – Chartered Civil Engineer and Chartered Management Accountant; FCMA, MICE, MIAustE, BSc Civil Engineering, MSc Construction Management; Prince2 Practitioner; 34 years experience in delivering major complex projects at local, national and international levels and considerable highways and PFI project delivery experience. PFI Programme Director for Highways Agency's first DBFO scheme, Construction advisor to Financial Secretary at HM Treasury in 1990's promoting PFI centrally and contributing to the revision of 'Green Book' and standard PFI Contracts. As OGC Director he has advised a number of PFI Projects including Prison and Office accommodation PFI's. As Executive Secretary to the Prime Minister, he was Director of Resources at No 10 and acted as the SRO and PFI Programme Director for a major accommodation project. As Director at PricewaterhouseCoopers (PwC), he led a number overseas capital projects including ones in the Middle East and North Africa using complex financing structures. He took up the IWC PFI Programme Director post in January 2009 and has guided the Project through all stages of procurement to Preferred Bidder stage.

6.3.4 Personal Assistant to Director

- 6.3.4.1 PA & Competitive Dialogue Administration Lead, Sarah-Louise Foley - NVQ 3 Business Administration; completed year 1 Foundation Degree in Local Government. Responsible for arranging and co-ordinating competitive dialogue meetings, project managing bidder events and arranging and co-ordinating meetings for both internal and external purposes including preparing comprehensive agendas and papers and taking minutes. Also, proactive diary management and admin support for the Project Team. Previous experience with the IWC in human resource issues. Sarah left her post in January 2012. Her replacement Julie Cohen has a wide experience of carrying out PA and business support roles within the private and public sector, she will support the Director as the Project moves towards Financial Close and through to Service Commencement.

6.3.5 Technical Manager

- 6.3.5.1 Technical Manager, Malcolm Smith – Chartered Civil Engineer, Member of the Institution of Civil Engineers, Member of the Institution of Highways and Transportation, Prince 2 Practitioner. Malcolm has 39 years Highway experience including 17 years heading up the Highway Maintenance Section of the IWC. Malcolm has been the lead technical officer since the inception of the IWC's PFI in 2004, gaining considerable PFI knowledge over this 7 year period. Highway asset management has also been his responsibility and he has developed the IWC's knowledge base to the point where it is a national leader in the field. In March 2009 he was appointed to a full time role of Highway PFI Technical Manager to project manage the technical input to the project supplied by the Technical Advisors and work stream leaders.

6.3.6 Programme Office Manager/Contracts Programme Manager

- 6.3.6.1 Anthony Hiscock carried out the Programme Office Manger role from the beginning of the Project until the ISDS stage. Anthony left the Project in August 2011 after 2 years with the team and he was replaced by Antony Cooke who took up the role of Contracts Programme Manager in December 2011 the first of the many transitional appointments, moving from procurement through to the contract management phase. Antony Cooke – MSc Human Resource Management, BA (Hons), - is responsible for providing programme delivery schedules and monitoring progress against key milestones. Antony monitors version and document control, maintains key project tools such as the Project's Risk Register, and provides checkpoint/highlight reports. He also supports all team leads in organising, coordinating, and leading ad-hoc projects. He has previous experience in IWC operations management, including building and maintaining supplier and customer relationships with local businesses, managing budgets, and reporting on financial and operational performance. Further project management and personnel management experience was gained within the private retail sector and he has advanced business research skills developed through his MSc studies.

6.3.7 Procurement Manger

- 6.3.7.1 Procurement Manager, David Stilwell – Member of the Chartered Institute of Procurement and Supply, with 25 years public sector procurement experience, including NHS, Education, Utilities, Aviation and Local Government. Responsible for advising on the procurement process and compliance with appropriate legislation and procurement best practice. David has also been responsible for managing all stages of the evaluation process, through PQQ, ISOS, ISDS, ISRS and CFT stages, ensuring consistency and compliance with publish criteria. David joined the Project Team in January 2010.

6.3.8 Commercial Manger

- 6.3.8.1 Commercial Manager, Tracy Ringer; ACCA qualified, BSc Applied Accounting; BA Humanities with English Language; NVQ5 Operational Management. Responsible for finance and legal issues relevant to the project, and liaison with relevant external advisors with particular regard to financial modelling, the Payment Mechanism and the Project Agreement. Also responsible for the preparation and monitoring of the internal budget through to financial close. Previous experience in managing voluntary sector projects funded through the European Social Fund, and 7 years Local Authority accounting experience across a wide range of service areas including Highways, Waste, Economic Development, Planning Services, Fire and Rescue, Emergency Planning, Consumer Protection, Tourism. Tracy has been involved in the Project since the Expression of Interest (Eoi) stage.

6.3.9 Lawyer

- 6.3.9.1 Highways PFI Lawyer, Jonathan Murphy Fellow of the Institute of Legal Executives since 2004 F.Inst.L.EX., Bachelor of Arts with Honours, History (Southampton 1996).BA (Hons). Jonathan has over 13 years of experience as a legal fee earner for local authorities, working for Devon County Council, Plymouth City Council and from 2009 the Isle of Wight Council. Specialising

in the fields of contract and employment law, with significant experience in relation to charities and trusts matters, company law, intellectual property issues, procurement matters and insolvency proceedings. Jonathan has advised on a large number of significant contracts across all local authority sectors including Highways, Transport, Education, Regeneration, Housing and Social Care and has advised and managed the Legal work stream in staff and service out-sourcing and in-sourcing projects. Jonathan was appointed to the Highways PFI Lawyer role at the IWC in September 2009 and heads up the Legal work stream, working with the drafting and development of the project documentation and negotiating with bidders during the Competitive Dialogue process.

6.3.10 Technical Project Manager

6.3.10.1 Technical Project Manager, Marc Griffin – Chartered Civil Engineer, Member of the Institution of Civil Engineers and Chairman of the Institution of Civil Engineers South Branch 2011/12 and elected South East Regional Chair for 2012/13. He has 12 years Highways and Bridges experience including 8 years in Design Consultancy and 4 years at the IWC. Marc has been the Technical Project Manager for the Project since 2010 gaining considerable PFI knowledge over this 2 year period and managed programming of all aspects of the technical workstream including the development of the Output Specification, ground investigation works, data collection, evaluation criteria, design reviews and technical input into legal and financial matters.

6.3.11 Data Manager

6.3.11.1 Data Manager, Mark Roberts – HNC Business and Finance, Prince 2 Foundation. 15 years Utilities experience including Network Engineer for Southern Water on the Isle of Wight. Mark has worked in his current position since 2009, gaining considerable PFI knowledge over this 2 year period, with the responsibility of selecting and setting up the Project extranet and the design and management of virtual Data Room. Mark has led the data

collection, digitising and geo-referencing of the IWC's historic and current records and data.

6.3.12 Project Engineer

- 6.3.12.1 Highways PFI Project Engineer – Roger Kimpton - Incorporated Engineer, Fellow Institute of Highway Engineers, with over 40 years of highways experience with five different local authorities in various roles, both client and operational. Prior to joining the IWC, Roger was part of the client procurement team within Portsmouth City Council for the Highways Maintenance PFI contract. He has used his valuable PFI knowledge in developing the Output Specification and negotiating with bidders where valuable knowledge and experience was gained first hand.

6.3.13 Asset Technician

- 6.3.13.1 Asset Technician - Peter Brooke, Asset Technician -traffic Engineering Cert. C&G, Open Tech Highway Technology, 30 years experience Highway Maintenance, Member of PFI Project Team for 18 months and is responsible for data collection, digitising and geo-referencing the IWC's historic and current records. He has led all of the asset data surveys, condition surveys and the pre-commencement surveys in October 2011.

6.3.14 Project Administrator

- 6.3.14.1 Project Administrator, Maureen Graham – Responsible for administration support to the full-time project team, meeting organisation, upload and revise extranet documents, manage incoming RFI's, and administration, diary management. Previous experience in administrative support for IWC, and other, major projects, customer complaints department including significant experience of highways related issues.

6.3.15 Administration and Research Assistant

- 6.3.15.1 Giles Good – Responsible for administration support and research to the Data Management team, updating the stakeholder management tool, update and creating layers in GIS, uploading and revising extranet documents and document scanning.
- 6.3.15.2 As highlighted above, the Project Team is supported, as appropriate, by specialists drawn from other relevant disciplines within the IWC including Property, Planning, Stakeholder Management, Risk, Legal, Procurement, HR. Whilst these resources are part-time with regard to the Project, their relevant departments are aware of the strategic importance of this Project and are committed to supporting it as appropriate.
- 6.3.15.3 The Project Team ensures integration and liaison with other IWC services and projects and shares lessons learnt via networking, team briefings, training sessions and scheduling.
- 6.3.15.4 The Project team's Technical experts meet monthly with the IWC's Highways department to discuss the project network, highway surveys and capital schemes. Furthermore, the Project Team provide active participation in the IWC's Geographic Information System (GIS) user group and holds regular staff update sessions to discuss the progress of the project.
- 6.3.15.5 The Project Team's Procurement Manger is a permanent member of the IWC's monthly Procurement Board. Additionally, the benefits of the Projects procurement efficiencies are shared with other procurement across the IWC though sharing skills and knowledge with major procurement projects. The specialist procurement knowledge developed thought the Project has the potential to offer guidance to future contracts such as the IWC's Waste Contract renewal which is due by 2015.
- 6.3.15.6 The Project Lawyer works within the Project Team but is a member the

IWC's central Legal Services Department. He liaises with the Legal Services team in updating them on the project and also receives briefings and updates which are passed to the Project Team as applicable.

- 6.3.15.7 Throughout the procurement process, IWC departments, including but not limited to Legal, Finance, Human Resources, Emergency Planning, Insurance, Pensions and Health and Safety have been involved in the development of procurement documents and the evaluation of ISOS, ISDS and ISRS submissions.
- 6.3.15.8 With regard to the technical work stream there are a number of specialists, drawn from the Economy and Environment Directorate, each assisting with information around the relevant assets/services including Highways Maintenance, Highways Renewal Programme, Traffic Management, Structures, Street Lighting, Cycleways, Parking Services, Street Cleansing, Environment and CCTV. Although these staff members are part-time with regard to the Project, they continue to be committed to the Project and understand their role within it.

6.4 Expert External Advisors – OBC to Contract

6.4.1 Legal

- 6.4.1.1 The IWC engaged DLA Piper LLP, to provide legal advice and assistance for the project in September 2008. DLA Piper was chosen following an open competition; they had significant experience of the PFI/PPP sector through their support to the Birmingham City Council in relation to its Highways PFI project, and also through their support to the Sheffield City Council on its pathfinder Highways PFI project. DLA's primary involvement on the project was in the production and development of the project documents, namely the Project Agreement itself, definitions, schedules and annexures. A number of joint workshops were held between the internal Project Team, DLA Piper and our Technical and Financial advisors to ensure that the development of the

documentation for the ISOS, ISDS and ISRS stages of the procurement both considered the IWC's own desires for the project and took reference of the PFI market positions.

- 6.4.1.2 Key lawyers were assigned to the commission, and further support was provided in respect of the development of the risk register, production of the Outline Business Case (OBC), competitive dialogue training for the internal Project Team, advice in relation to procurement documentation such as the OJEU notice, PQQ, the Descriptive Document the development of evaluation criteria, and the evaluation of bidders at the ISOS and ISDS stages.
- 6.4.1.3 The commission with DLA Piper expired at the end of their contract period in September 2011 and following a procurement exercise for legal advisors in the autumn of 2011, Burges Salmon LLP were appointed.
- 6.4.1.4 Burges Salmon have significant experience in a number of major Highways and street lighting projects, including DBFO contracts and advising funders on the Birmingham Highways PFI project. Of particular value is Burges Salmon's funder side experience of closing deals in the Highways sector. Burges Salmon is involved in evaluation of the legal submissions and once the project reaches Financial Close will be involved in producing a guide to the project documents for the IWC's internal contract management team.
- 6.4.1.5 JLT as the IWC's appointed insurance broker have provided specialist advice as required in support of the preparation of the OBC.

6.4.2 Technical

- 6.4.2.1 The Technical Advisor (TA) appointment was divided into two phases – pre-OBC that required detailed knowledge of assets, asset condition, economic analysis, cost modelling and Project costs, and post OBC. The longer term technical advisor appointment went through the OJEU procurement route and evaluation criteria reflected the expertise needed in the next phase,

availability of the key resources and strength of the project management capability.

6.4.2.2 Halcrow were appointed as the Technical Advisors up to the OBC submission, with WSP appointed post OBC. Halcrow, assisted with options appraisal, economic modelling, and verification of asset conditions and costs of rectification and maintenance.

6.4.2.3 WSP, appointed in July 2009, have provided technical advice to the Project from the outset of the procurement process and will remain as advisors until through to the early delivery stages of the Contract. All of the staff employed on the project have significant experience of PFI projects and are currently working with other clients, including Local Authorities, across a range of sectors. Their main task has been in assisting with the development of the Output Specification, and Payment Mechanism and supporting competitive dialogue sessions. They have also provided technical input to the Project Agreement, have developed carbon and water models, gave geotechnical support and have provided advice on technical issues across the project as required.

6.4.2.4 WDM Limited have 40 years experience in undertaking highway condition surveys and providing asset management consultancy and software to highway authorities throughout the UK. They have undertaken annual SCRIM, Scanner, Deflectograph, Carriageway CVI and Footway DVI surveys for the IWC for the last 20 years. In addition they maintain and operate the IWC's Pavement Management System (PMS). Using condition data from the 2008/09 surveys they predicted the carriageway and footway costs for the Project using the latest modelling techniques developed over the last 11 years in conjunction with the DfT, Transport for Scotland and highway authorities. Then in conjunction with WSP they have developed Wight Condition Indices and the associated methodology for measuring the condition of carriageways, footways, cycleways and car parks along with the setting of appropriate target values. Two of their very experienced Directors

and several Pavement Engineers have been involved in the Project.

- 6.4.2.5 SKM (previously known as Colin Buchanan) have developed a high level SATURN traffic model of the Island for the purpose of establishing future traffic flows over the next 25 years. Working closely with the IWC's appointed Technical Advisors for the Project, the model has been used to accurately determine current and future traffic volumes and assist bidders for the Project in their submission. The model has been used to assess the impact of developments and changes to the network including for planning control. Support has also been given in preparing the Economic Case for the Final Business Case.
- 6.4.2.6 UE Associates have been employed to provide environmental advice and in particular to undertake the preparation of a Strategic Environmental Assessment (SEA) of the Project along with the associated Habitat Regulations Assessments (HRA).
- 6.4.2.7 All of the advisors have significant experience in their field and meet regularly with the IWC either on the Island or at their offices and ensure there is relevant discussion on cross-over topics.

6.4.3 Financial

- 6.4.3.1 PricewaterhouseCoopers LLP (PwC), appointed October 2008, have been providing financial advice to the Project from Outline Business Case and will on board through to Service Commencement. The key personnel supporting this Project have significant experience of PFI projects including Transport PFI projects. For example, this team includes individuals that have supported the Portsmouth Highways Maintenance PFI project, the M25 widening project as well as numerous Street Lighting PFI projects across the country. PwC are also providing support on other highways maintenance PFI projects including client side support on the Sheffield project and provided bid side support on the Birmingham project.

- 6.4.3.2 PwC's main tasks have included assisting with the financial modelling to establish the cost of the PSC and the PFI, the level of credits required and the resultant affordability position of the IWC. They also provide key assistance in understanding the procurement and contract risks associated with the Project and, where appropriate, quantifying these for the purposes of the risk analysis to be included in the Business Case. Additionally, they offer support on commercial, financial and procurement issues requested of them including providing advice in terms of the latest positions given the current funding climate.
- 6.4.3.3 PWC have been party to key financial/commercial discussion at all stages of the Competitive Dialogue process and supported the Project Team in developing the capabilities of the Project Team to manage the contract that arises from the Project.

6.5 Meetings

6.5.1 Internal

- 6.5.1.1 The dedicated Project Team, and specialist internal staff as appropriate, meet on a weekly basis to discuss progress and issues. The Project team have run workshops and given presentation to appropriate IWC teams. During the early stages of the project, on a monthly basis the Project Team held a full two day workshop that addressed various issues relevant to the Project on day one (also perceived as a training/learning opportunity) with day two being a working day addressing the issues from day one. The external advisors joined the Project Team for these two days, which also included their monthly progress update meetings with the Programme Director and appropriate Project Team member.
- 6.5.1.2 During the ISOS and ISDS stages, the Project Team undertook a course of professional training and coaching, sourced from specialist external training providers in order to further develop key skills and facilitate a sharing of

ideas and general review of team performance

- 6.5.1.3 Throughout the project, the team have held weekly meetings to discuss progress, priorities and plan future project requirements.

6.5.2 External

- 6.5.2.1 The DfT set up a monthly network meeting with the three pathfinder Highways authorities, and the Programme Director, Commercial Manager and Technical Manager attended these up until the group dissolved. The Project Team have however maintained informal contact with London Borough of Hounslow (LBH), Sheffield, Portsmouth and Birmingham throughout the procurement process. This network is being reinstated in the future as a quarterly event that the Programme Director, and the Project Team will attend to share knowledge and experience.
- 6.5.2.2 The Project Team has also attended the well established Street Lighting Network meeting, up until the network was dissolved. A new network forum has now been put in place until late 2011 and the Project Team attends and shares ideas and concerns with the participating attendees.
- 6.5.2.3 The SRO and Programme Director also attended monthly strategic meeting at the early stages of the Project development. The Project Team utilised the DfT appointed Transactor in developing the Project and the OBC, and have also had discussions with the other relevant Local Authorities, as appropriate.
- 6.5.2.4 The Programme Director has held regular discussion with the Chamber of Commerce to ensure the locally based contractors and the wider supply chain are kept informed of the Project progress. The Construction Sector Board of the Chamber of Commerce is given a quarterly update and bi-annual presentations. The Chair of the Chamber of Commerce meets with Programme Director regularly to provide member feedback on progress.

6.5.3 Competitive Dialogue meetings

- 6.5.3.1 Competitive dialogue sessions commenced in June 2010 and detailed sessions have been held with all Respondents through the ISOS, ISDS and ISRS stages, with the dialogue phase being formally closed in February 2012. The Competitive Dialogue process is covered in detail in the Commercial Case.

6.6 Contract Management Governance

6.6.1 Contract Management Structure

- 6.6.1.1 The Project will complete its procurement phase by March 2013 and commence the contract management phase from 1 April 2013. The IWC has put in place, a strong management structure to establish effective contract management from day one. The IWC has agreed a governance structure for the on-going management of the Contract. Post-contract award the organisational governance will adapt to reflect the function of the Special Purpose Vehicle (SPV) and Operating Company (OpCo). The proposed governance structure is shown in Figure 50 below:

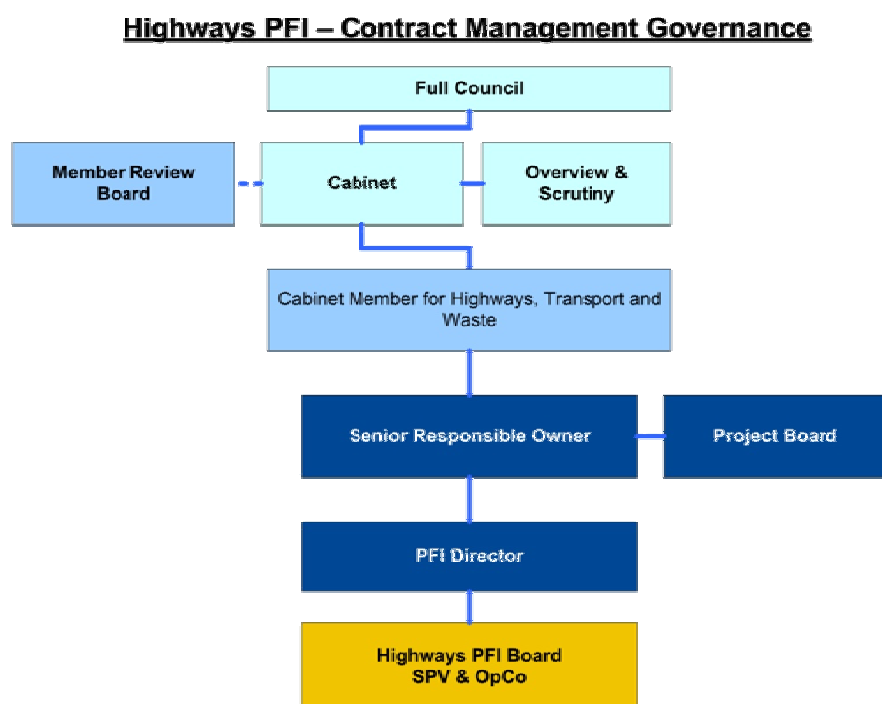


Figure 50 Contract Management Governance organisational structure

- 6.6.1.2 The roles of the Full Council, Cabinet, Overview and Scrutiny Committee and the Cabinet Member for Highways, Transport and Waste will continue as in the Procurement phase (6.2.3)

6.6.2 Members Review Board

- 6.6.2.1 The Member Review Board (MRB) will continue with its review role through to service commencement. The MRB for this Project consists of the Portfolio Holder for Environment, Transport and Waste, the Cabinet Secretary, Portfolio Holder for Major Projects, the Chairman of the Scrutiny Panel for the Economy, Environment & Transport, the Senior Responsible Owner, and the Highways Programme Director. Their role will be to monitor and report to Members the fulfilment of the Contract in regard to the policies and budgets agreed by the IWC.
- 6.6.2.2 Senior Responsible Owner – will continue to hold the senior officer responsibility for the delivery of the Project and will be supported by the Project Board.

6.6.3 Project Board

- 6.6.3.1 The Project Board will have delegated authority to make relevant decisions affecting the management of the Contract and, as such, is the main decision making body supporting the Contract Management Team. Although day-to-day responsibility for managing the Contract will be delegated to the PFI Director, the Project Board acts as the final arbiter for issues referred upwards by the PFI Director. The PFI Director role will be subsumed into a Contract Manager post in the long term once the present Programme Director sets up the necessary processes and controls for effective contract management. The Project Board, chaired by the Senior Responsible Owner and including the Programme Director, the Section 151 Officer/Director of Resources, the Strategic Manager for Legal Services and DfT representative, will initially meet once a month, or more frequently by

agreement when more immediate decisions are required. The specific responsibilities of the Project Board are:

From contract commencement:

- To review the performance of the Service Provider;
- To ensure that project risks are managed effectively;
- To ensure that significant contract variations are appropriately managed;
- To oversee the ongoing and appropriate liaison with stakeholders;
- To monitor IWC & the DfT contributions / payments;
- Reporting to the DfT, HMT, the Cabinet and the Scrutiny Committee.

6.7 Contract Management Team

- 6.7.1.1 The team, who are involved in the Competitive Dialogue process, have built up the vital expertise needed to manage the contract and will transfer to the on-going Contract Management Team. The IWC has recognised that the Contract Management Team needs to be involved in the Preferred Bidder negotiations to understand the key elements of the final contract. This will ensure that there is continuity between the procurement and contract management phases. To enable this, the majority of the Contract Management Team appointments took up their new positions in April 2012. The new team will operate in shadow until March 2013 and take over full responsibility at Service Commencement.
- 6.7.1.2 The procurement knowledge and skills developed by the Highways Project Team will provide a major opportunity to share skills and develop a team that is capable of handling major procurement for the IWC. In the longer term, the Contract Management team will form part of the wider Contract Management structure of the IWC.

IWC Highways PFI Project Contract Management Team Structure

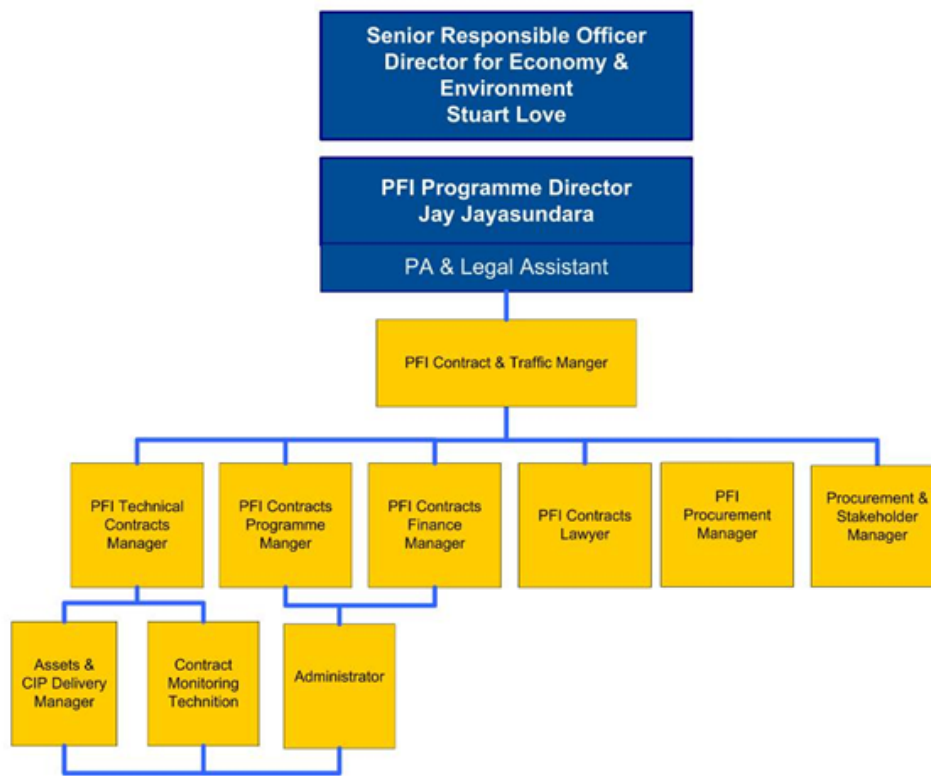


Figure 51 Contract Management Organisational Structure

6.7.1.3 It is proposed that there will be a reduction in staff numbers as the project moves from procurement phase to contract management. This reduction will provide savings over the 25 year contract management phase. There will be a further opportunity to review the structure at the end of the seven year core investment period. The proposed Contract Management Team structure is show in Figure 51.

6.7.2 Highways PFI Board, Special Purpose Vehicle and Operating Company

6.7.2.1 The IWC will enter into the Contract with the Special Purpose Vehicle (SPV) set up by the Preferred Bidder to deliver the services. The SPV will have a single sub-contract with the Operating Company to deliver the individual services described in the Output Specification. The performance of the SPV

and hence the Operating Company will be reviewed by the Highways PFI Board. The remits of this Board are set out in the Contract and will primarily function as a partnering body. The Board will be the first point of call for resolving any potential disputes.

6.8 Project Interface and Dependencies

6.8.1.1 The Project identified a number of interfaces and dependencies that may affect it and the IWC have attempted to manage these to ensure that there is no detriment to the Project over the long-term. These interfaces and dependencies include fence to fence issues, co-ordination with utilities, local events, land owners' rights, Network Rail and Island Line, the Isle of Wight Steam Railway, the Environment Agency, and transport operators. Where appropriate, the Project Agreement contains provisions to ensure that there is no adverse impact to the Project from these.

6.9 Assurance and Approvals Plan

6.9.1 Data Management

6.9.1.1 A full time Data Manager and Asset Technician have been in place since 2009. After thorough investigation it was decided upon the use of a secure extranet to facilitate the data management for the project. This enabled:

- The Virtual Project Data Room to be available through a secure online portal with each bidder having their own unique log-in to view data, 24 hours a day, seven days a week, from anywhere with internet access.
- The Data Room to be auditable to show who viewed what document and when. Each user is assigned to a unique Security Group with limited access rights to data and functionality.
- Appropriate version control with only the latest version visible but an audit of all documents uploaded whether superseded or not.

- Each external advisor has access to their own secure area of the extranet for receiving and uploading documents and data.

- 6.9.1.2 Bidders are notified when new versions of documents have been released or new documents have been produced, by use of a secure General Release process.
- 6.9.1.3 During the procurement process extensive data sets were created electronically that will benefit both the Service Provider and the IWC. This data has been stored in the Project Data Room, an electronic data management system supplied by 4Projects.
- 6.9.1.4 The data has been either scanned using Adobe PDF software or converted into geospatial data, such as historic and current paper maps digitised into GIS (Geographic Information Systems) files using ESRI ArcMap software with the creation of suitable metadata.
- 6.9.1.5 This data will be the responsibility of the Service Provider to maintain, update and share with the IWC via their Management Information System (MIS).
- 6.9.1.6 Databases contained within commercial or bespoke software will be made available to the Service Provider to migrate to either their MIS or for use within licensed versions of the relevant software.
- 6.9.1.7 At the end of the 25 year contract all Project Network data will be returned to the IWC in a format pre agreed with the Service Provider.

6.9.2 Key Assurance and Approval Milestones

Assurance / Approval	Date
Gateway Review 0 – Strategic Assessment	June 2005
Gateway Review 1 – Business Justification	July 2009
Gateway Review 2 – Procurement Strategy	Replaced by Internal Audit
Cabinet – OBC and Scope Approval	August 2009
Comprehensive Spending Review Approval	May 2010 – Oct 2010
Internal Audit	November 2010
Cabinet – PFI Revised Funding	May 2011
Scrutiny Panel	Various
Gateway Review 3 – Investment Decision	March 2012
DfT FBC	April 2012
Gateway Review 4 – Readiness for Service	Not Required
Gateway Review 5 – Operations Review and Benefits Realisation	TBC
Internal Audit	November 2013

Figure 52 Key Assurance and Approval Milestones

6.10 Gateway Review, Audit and Independent Scrutiny

6.10.1 Gateway Review

6.10.1.1 Gateway Reviews were launched in the local government sector by 4Ps (now known as Local Partnerships) in April 2003. The principles behind the

review process are for a team of independent individuals, with experience in Project delivery to speak to key players involved in the project and with other stakeholders to consider whether there are any actions/activities that could enhance the Project's probability of success. The benefit of using independent individuals is to use people who are able to think about issues without having been party to earlier decisions and consequently may see things from a different point of view.

- 6.10.1.2 The IWC had the first Gateway review, number 0 (Appendix M1), carried out in June 2005. The Gateway 0 highlighted staff resources as being the main area of concern for successful project delivery. This has now been fully addressed and is demonstrated in section 6.2 of this document and was recognised in both the Gateway 1 review and Internal Audit. The IWC has a core team in place, supported by other specialist staff and external advisors with appropriate experience. Following discussions with 4Ps, to recommence the Gateway process it was agreed that Gateway 0 did not require a refresh but that the IWC would continue with Gateway 1.
- 6.10.1.3 Gateway 1 took place in July 2009 and the report is attached at Appendix M2. The Project has been given an amber/green delivery confidence assessment (successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery) and the Project Team have identified the risks and have effectively planned and followed through the appropriate mitigation measures.
- 6.10.1.4 Following Gateway 1, the Project underwent rigorous scrutiny including a detailed review by Partnerships UK (now known as Infrastructure UK) and a Projects Review Group interview followed by written submission and approval, a DfT review and HMT Review, approval as part of CSR (see 6.10.2) and an Internal Audit (see 6.10.3). Gateway 2 was not deemed necessary due to the level of scrutiny of the project during the CSR process and the change in government. .

6.10.1.5 The Project completed a Gateway 3 review in March 2012. Gateway 3 has confirmed the Business Case and Benefits Plan and has proved that the objectives and desired outputs of the project are aligned with the programme and the wider IWC's business strategy. The process has validated that all the necessary statutory and procedural requirements have been followed throughout the procurement/evaluation process. The Project Team has demonstrated that the recommended contract decision will deliver the specified outputs/outcomes on time, within budget and provide value for money. The Gateway 3 report is located in Appendix M3.

6.10.2 Comprehensive Spending Review (CSR)

6.10.2.1 The government completed a Comprehensive Spending Review (CSR) (also see financial case paragraph 4.3.7.4) in October 2010, which resulted in the approval for the project, subject to a reduced level of PFI grant funding. The Project Team has worked hard with its advisors and bidders to find significant economies without altering the scope of the Project to meet the revised affordability envelope. The Project was effectively put on hold between May and October 2010 and despite the uncertainty created by the CSR, the project has retained its programme to date.

6.10.3 Internal Audit

6.10.3.1 The Internal Audit plan for 09/10 included the Project as a named review item. The Project was fully Audited in September 2010 (see Appendix M7) The purpose of the review was to assess the adequacy of the control environment in place relating to Risk and Procurement Management for the Project and to validate that controls were functioning effectively. Delivering good project management in these areas maximises the likelihood of the Programme delivering its projected benefits on time, within budget and to expected quality standards.

6.10.3.2 The Internal Audit concluded the Project is an exemplar of good practice:

- The Programme's aims are clear and understood by all key stakeholders.
- Necessary budget has been approved; spend to date is within tolerance.
- An experienced, full time Programme Manager is in place.
- An experienced, full time Programme Team is in place covering all necessary areas of expertise.
- The Programme is on track with defined milestones.

6.10.4 Independent Scrutiny

6.10.4.1 Full Council and Cabinet contribute to the scrutiny process in their consideration of key decisions relating to the project, and the Member Review Board outlined in 6.2 contributes towards the overall scrutiny. In addition, the Chair of the Scrutiny Panel for the Economy, Environment & Transport is a member of the MRB. Before committee papers can be submitted for consideration by members, the IWC's internal processes include Directors Team review and a 'Call-Over' review led by officers for legal, finance, human resources, property, risk, communications, performance, and strategic projects. This gives relevant officers the opportunity to take a broader view of the impact of reports to ensure appropriateness before publication and approval.

6.10.4.2 The Project has submitted two reports to the IWC Scrutiny and Overview Committee, and a number of presentations to IWC members and the IWC Cabinet. These can be viewed in full in Appendix M4 & M5. Both reports were publicly discussed and scrutinised and have been well received with no new issues to address.

6.10.5 Statutory Process

6.10.5.1 Under the Project Documents the IWC has delegated its statutory powers in relation to its various highways functions to the Service Provider where permitted under the provisions of the Deregulation and Contracting Out Act

1994 and the Contracting Out (Highways Functions) Order 2009 to enable the Service Provider to carry out the services. Where a function cannot be delegated to the service provider the IWC will require the Service Provider to provide the services as an agent of the IWC under section 1(1) of the Local Government (Contracts) Act 1997.

- 6.10.5.2 Discussions have focussed on the precise scope of services required from the Service Provider, the services currently able to be delegated under the Contracting Out (Highways Functions) Order 2009 (including powers able to be delegated under the New Roads and Street Works Act 1991 and the Traffic Management Act 2004) together with any restrictions on the powers if they are delegated, the likelihood of any delegated power ceasing to be able to be delegated, and whether any powers that are currently not delegated are likely to become delegated prior to the completion of the Project Agreement.

6.11 Communications and Stakeholder Management

- 6.11.1.1 The Project Team has put in place a strategic framework for the management of stakeholders and communications. The IWC has maintained effective communications with all its stakeholders in line with the communications strategy (see 6.5.2) throughout the procurement process; this included public meetings, Town and Parish Council meetings, press advertisements, radio interviews, Facebook sessions, One Island magazine articles, a dedicated Isle of Wight Highways PFI webpage, Unison meetings and Chamber of Commerce publications. Post-Contract Award the IWC will work in partnership with the Service Provider to deliver a unified communication strategy.

6.12 Communication and Stakeholder Strategy Procurement Phase

- 6.12.1.1 The Project will impact a large number of people and organisations on the Island (stakeholders) in a multitude of ways. Therefore, the Project Team has

put in place an appropriate framework with the right structure, tools, processes, and people in order to effectively manage and communicate with stakeholders from the outset.

- Structure – Team make up, and how the team is organised.
- Processes – What is done, when, and how.
- Tools – Providing the analytical and data storage backbone of the project
- People (resources) – The human element that reaches and connects with stakeholders.

6.12.1.2 The Stakeholder Management & Communications Strategy for the Project to deliver the stakeholder management of all stakeholders and associated communications relating to the Project is attached at Appendix M9. The Stakeholder Management Tool (SMT) has been built around structures, processes, tools, and human resources required to manage the stakeholder and communication elements of a major project through to successful completion. It has supported the successful delivery of the Project through the structured and systematic identification, analysis, and management of stakeholders, and the implementation of effective communications.

6.12.1.3 The SMT has been used to map out stakeholders, stakeholder managers and deliver key messages at critical stages. The tool is also used to identify changes to the plan, enabling the IWC to be pro-active in managing messages. The SMT adopts the following methodology:

- Identifying and mapping stakeholders in order to understand their influence on the project and support the decision making process.
- Providing accurate, timely, and relevant information (communications) to assist stakeholder managers to use the most appropriate communication channels (within budgetary constraints).

- Managing stakeholders to keep, or get, them on board for the duration of the project.
- Keeping the Project Team apprised of the general and specific nature of stakeholder opinion, support and risk (informing ongoing project management decisions or mitigation planning).
- Providing a communication and engagement audit trail to evidence best practice and to support a learning / improvement culture within the IWC.

6.13 Communication and Stakeholder Strategy Post Contract Award

- 6.13.1.1 The Communication and Stakeholder Management Strategy will be revised post contract award firstly with the Preferred Bidder to ensure that the Service Provider interacts with stakeholders in an agreed manner that complies with the Authorities Corporate Communication Policy, Corporate Branding Policy, and the IWC & NHS Single Equality Scheme.
- 6.13.1.2 The revised Communication and Stakeholder Management Strategy along with all policies relevant at that time will be agreed with the service provider within the mobilisation period. This document will provide guidance and requirements for internal and external communication, branding, reporting of enquiries and media relations.

6.14 Key Stakeholder Groups

6.14.1 Local Residents

- 6.14.1.1 The condition of the Isle of Wight roads is one of the key concerns for local residents. The Residents Surveys have highlighted this as a concern repeatedly. Hence residents recognise that they will be the main beneficiaries of improvements, although they will suffer some disruption, particularly during the CIP. The IWC has kept residents informed of the Project progress through local media, road shows and social networking

sites.

- 6.14.1.2 Arrangements are already in place for the Preferred Bidder / Service Provider to be taken on an Island Road show.

6.14.2 14 – 19 Partnership Consortium

- 6.14.2.1 Given the long term nature of the Project the future success will rely on the Island to provide a continuous feed of skilled and unskilled employees as well as apprentices over its lifetime. The Island's educational providers come together as a group in the 14-19 Partnership Consortium to ensure their curriculum meets the needs of business and are complimentary to each other. The Project Team has regularly briefed the Consortium of the future needs of the Project. The bidders too have been encouraged to meet the Consortium to progress potential training and apprenticeship programmes. In Addition, the Project Team has taken the Project on a road show of the Island's Primary and Secondary Schools to inform the next generation of potential employment opportunities.

6.14.3 Network Users

- 6.14.3.1 As well as residents, the Island's highway network is used by others such as transport providers, delivery drivers and tourists. Additionally interest groups such as the Ramblers Association and land owners have an interest in the footways and cycleway network. Ensuring wider local stakeholder support has been seen to be a priority since the inception of the project and regular information meetings are held with Town and Parish, and IWC Councillors along with other local interest groups. Transport operators are kept informed through the IWC's Quality Transport Partnership, while local media are used to keep local residents in the picture as to progress.
- 6.14.3.2 Once the Project is in the operational phase the successful service provider will be required to keep stakeholders updated as to the programme of works

and the SMT updated throughout the life of the Project.

6.14.4 All Isle of Wight Council Staff

6.14.4.1 The IWC has recognised that a project of this size requires frequent communication with all stakeholder groups. This cannot always be achieved by the Project Team nor is this always appropriate. The IWC communicates daily with the wider public through a call centre, website (www.iwight.com) and customer facing offices. Maintaining a good knowledge of development in the Project is essential for the staff working with and producing public information.

6.14.4.2 The IWC's Resident Information and Consultation team are regularly updated on the Project progress and developments. This team is responsible for updating the media and call centre staff of any changes to the Project.

6.14.5 TUPE Staff

6.14.5.1 Staff affected by the Project have been kept informed throughout the procurement phase. They have attended staff meetings and briefing sessions whereby the Project procurement process has been fully outlined and explained. This has included IWC led briefing sessions and more recently in November 2011 a Bidders Staff Conference where all of the bidders presented their company profile and approach to delivery of the Project to staff and where staff had the opportunity to raise questions with each of the bidders. In addition to that, senior members of the Project Team have attended individual team meetings to facilitate a forum for discussion at every level. Information is being shared with staff at the earliest opportunity.

6.14.5.2 The IWC also established regular consultative meetings with the local trade union (UNISON) to ensure that continuous consultation occurs to ensure that an agreed approach can be adopted. Union representatives are also encouraged to raise additional issues as and when they arise. A letter of

support from UNISON is attached at Appendix M16.

- 6.14.5.3 The IWC's Stakeholder Management Tool (SMT) includes details of all employees currently in-scope, the employee details section is in the confidential section of the tool. This system records all individual and group communications and will ensure that all staff identified as falling within the scope are kept informed at all stages.
- 6.14.5.4 In March 2012, following the ISRS evaluation, all IWC TUPE staff were offered the opportunity to meet with and discuss any individual issues with the two bidders moving through to CFT.
- 6.14.5.5 At CFT, all employees in scope for transfer will be provided with the opportunity to meet with Human Resources advisors and trade union representatives. The Preferred Bidder intends to provide provisional Terms and Conditions continuity by entering into the Local Government Pension Scheme (GPS). The IWC will facilitate the required discussions to conclude the acceptance into the GPS scheme.
- 6.14.5.6 In addition to the above, following selection of the Preferred Bidder the IWC will facilitate communication and meetings between trade union and staff representatives and the transferee to enable consultation under TUPE to take place.

6.14.6 Statutory Undertakers

- 6.14.6.1 Co-ordinating the highway network refurbishment with the statutory undertakers will be essential to the success of the Project. Initial talks have been held including the November 2011 Bidders Conference where the IWC facilitated individual meetings between key utilities and each of the three bidders. There will continue to be an on-going dialogue to ensure that their works dovetail with that of the Preferred Bidder.

6.14.7 Local Suppliers

- 6.14.7.1 The IWC has a co-terminus date for as many of the external contracts as possible in advance of the Contract commencement. Through the Local Industry Day, Bidders Day and other communication mechanisms, all current contractors and the bidders will be advised to seek independent legal advice in relation to TUPE, and bidders will be provided with contact information to facilitate direct communication with current contractors on the TUPE implications, ensuring a smooth transition for any non-IWC TUPE transfers.
- 6.14.7.2 The Island location offers the local contractors an opportunity to participate as part of the supply chain. The Preferred Bidder has demonstrated a willingness to utilise local companies and workforce throughout the term of the Contract.

6.15 Project Delivery Plan, Programme and Reporting

6.15.1 Delivery Plan

- 6.15.1.1 The Project delivery plan has been formulated in Microsoft Project and has been produced incorporating modified Prince2 methodologies. The Project Plan is attached at Appendix C2.
- 6.15.1.2 The Project Team has undertaken a critical path analysis and progress against delivery plans is being measured weekly to ensure that the programme schedule remains viable. Workshops, bringing together the Project Team and the external advisors, have been held regularly to review the programme. These reviews have enabled the Team to plan in detail the specific resource requirements and activities required to successfully meet the planned milestones. The workshops have been a valuable tool in assisting with the identification and resolution of issues that could have adversely impacted the project plan. The Project Team has proven its ability to be flexible and innovative in its approach to managing the programme.

- 6.15.1.3 Key IWC staff who are associated with the project have received training on Microsoft Project which has been used to develop the project plan. The Programme Director and Technical Manager are both Prince2 practitioner qualified. Both of these approaches have been used to manage the programme and form a robust and efficient programme office.

6.15.2 Key Milestones

- 6.15.2.1 Below is a summary of the key procurement milestones.

Activity	Scheduled Completion	Milestone Achieved	Revisions
Submission of OBC	28 th Aug 09		
DfT/PRG Approval	Feb 10		
Issue OJEU	Feb/Mar 10	April 10	
Issue ISOS	June 10	June 10	
Issue ISDS	Dec 10	Oct 10	
Issue ISRS	Sept 11	Aug 11	
Issue CFT	Feb 12		Mar 2012
Select PB	Feb 12		May 2012
Financial Close	Nov 12		15 th Aug 2012
Service Commencement	Apr 13		

6.16 Operational Phase and Contract Monitoring

6.16.1 Reporting

- 6.16.1.1 The Service Provider will be utilising a Management Information System (MIS) for reporting contractual performance against the Output Specification and this will mainly form the basis of contract monitoring. The Output Specification details a variety of strategies which set out requirements for various reporting such as weekly, monthly and annual service reports,

milestone completion and certification and Network Integrity.

- 6.16.1.2 The use of the MIS will mean that each report submitted will ensure that the project plan and programme are updated and performance adjustments made when performance dataset are not achieved. This performance will also be provided in real time allowing the Contract Management Team to review and interrogate as necessary.

6.16.2 Contract Commencement and Mobilisation

- 6.16.2.1 Once the contract has been awarded to the successful Preferred Bidder, the IWC will implement a robust mechanism by which the Project will be managed. It is proposed that the principles outlined by the Office of Government Commerce will be adopted.
- 6.16.2.2 The IWC will ensure that the right people are in place to carry out the contract management activities, including both the direct Contract Management Team and the wider stakeholders across the organisation and the Island. Details of the Contract Management Team are provided in 6.2.2.8 (above); the team structure is in place in shadow and the new team will start interfacing with the Preferred Bidder immediately. By establishing the Contract Management Team as early as is reasonable and by utilising resources already in place from the procurement process, the team are fully familiar with the Project Agreement and key contractual requirements. The IWC is therefore confident that good professional work relationships will be built up with the Preferred Bidder.
- 6.16.2.3 The Project Team is already aware of particular issues pertinent to the Isle of Wight where the Highways PFI Board will maintain a focus on such issues that address local needs. The IWC is already working with local learning establishments and residents to highlight where local skills can be developed to assist with the Project. By utilising local resources within this service, the Service Provider will have a readily available solution to ensuring service

performance. In November 2011 the Project Team held a 'Bidders Conference' which facilitated discussions between the bidders and Utility companies, all TUPE affected staff, the 14-19 Consortium, and the IWC's own internal ICT team, Resident Information and Consultation team, Waste Contract team, Economy team and AONB.

- 6.16.2.4 The IWC will review its Contract Management requirement leading up to the end of the CIP. The overarching approach will be one that is both robust and flexible to respond to the contract requirements.

6.16.3 Mobilisation Plan

- 6.16.3.1 The IWC has established a Contract Management Team (please see Figure 51 in paragraph 6.6.1 above) to oversee the delivery of the Contract. The Contract Management Team will be co-located in the same office complex as the Service Provider and will closely interface with the Service Provider and Operating Company but with affordable safeguards for confidentiality and security. A Highways PFI Board will also be established under the Contract to maintain close dialogue with the Service Provider throughout the service period.

- 6.16.3.2 The contract documentation sets out specific milestones for the Service Provider to achieve over the mobilisation period to ensure that the Service Commencement can take place as planned in April 2013.

6.16.4 Post Implementation Review (PIR)

- 6.16.4.1 The IWC's Contract Management Team will complete a Post Implementation Review (PIR) to ensure that the Project is in full compliance with the objectives set out during the Strategic Case. The review will address areas that can be changed or improved as the project progresses and addresses lessons learnt that can also be taken forward in the project to ensure improved efficiencies and service supporting the requirements of the projects

continuous improvement.

6.16.4.2 The Contract Management Team will begin the PIR process shortly after contract commencement. This is to ensure that issues raised and resolved during the mobilisation period and at the start of the Contract can be noted and monitored over the course of the first few months to ensure that the initial problems have been addressed and the Project is running effectively.

6.16.4.3 After the first few months the Contract Management Team will complete the full PIR. The team will run workshops in partnership with the Service Provider to ensure there is openness in the review. The process will include a review of the Management Information System and the documentation contained within to confirm its effectiveness. It will also review stakeholder satisfaction since the Project started. The results of the Post Implementation Review will be reported to assist with the Post Project Review and Best Value Reviews.

6.16.5 Post Project Review

6.16.5.1 The Contract Management Team will complete the first Post Project Review following the first year of the Contract and at various milestones during the Contract including the end of the CIP. This review will also be used as part of the Benefits Realisation Plan. The purpose of the Post Project Review is to measure the success of the Project since contract commencement. This will establish what level the Project objectives have achieved and the benefits expected including any trends identified to improve benefits.

6.16.5.2 The process will include reference to the risk register to check against risks that were raised at the start of the Contract and to confirm if risks have been mitigated through the project outcomes. The review will also depend on feedback from Stakeholders using the Stakeholder Management Tool contained within the MIS. The evaluation will respond to the needs and interests of the stakeholders and provide information to address their needs.

- 6.16.5.3 The improved Quality Management techniques introduced in the Project, via the Output Specification and Method Statements, will also be checked by carrying out internal audits. By using staff and customer satisfaction surveys and polls the review will also confirm if the objectives of the Project have been met and the public are happy and support the results of the investment on the Island.

6.16.6 Best Value and Continuous Value for Money

- 6.16.6.1 The Service Provider will assist the IWC in discharging its Best Value Duty in relation to the Services. The requirements for Best Value reviews are detailed within the Project Agreement and Performance Standard 10 of the Output Specification.
- 6.16.6.2 The IWC has set out a variety of requirements to the Service Provider throughout the term of the Contract to ensure Best Value. Areas to be considered include review and reporting on performance indicators, review of rates used within pricing catalogue and “y value tables” for accessioning and de-accessioning assets, results from completing inspections, review of efficiencies, review of carbon and water footprinting, review of energy consumption and reflection on issues raised on the post project review, for example customer and stakeholder satisfaction.
- 6.16.6.3 The Project documentation also sets out requirements for the Service Provider to make the necessary arrangements for their operations to secure continuous improvement having regard to a combination of economic benefit, linked to the Benefits Realisation, effectiveness and efficiency savings. With expected technological advances expected over the years the IWC expects vast improvements to efficiencies on the project network.

6.16.7 Benefits Realisation Plan

- 6.16.7.1 The Project Team commenced the development of the Benefits Realisation

plan following the commencement of procurement. A benefits realisation strategy was established and a register was developed to identify and arrange the potential benefits. The register was used to develop a plan to ensure that the benefits that were identified during the early procurement stages will come to fruition in the Contract. These were developed and reviewed during the remainder of the Procurement stages and also following the Government's Comprehensive Spending review to ensure that the benefits could still be realised even with a reduced grant.

6.16.7.2 During the Competitive Dialogue process additional benefits have been realised and these were added to the register. The list of benefits that have been identified but not exhaustive were:

- Time savings using an Intelligent Transport System
- Time savings from increased traffic speeds
- Time savings from fewer road works and road closures
- Time savings from removal of weight and width restrictions
- Reduced vehicle operating costs
- Reduction in accidents and casualties
- Reduced fear of crime and social disorder
- Reduction in cost to public sector
- Efficiency Gains
- Programming on an annual, Core Investment Period, Lifecycle Replacement and Full-Term Indicative basis.
- Implementation of a LED lighting solution including CMS
- Remote monitoring of traffic signals and other equipment such as Yarmouth Bridge
- Control of carbon and water costs and usage by the development of Management of Carbon and Water Tools

- Investment of state of the art multi body vehicles to improve efficiencies including GPS to link to the MIS
- An integrated all encompassing approach to the management of information using a Management Information System (MIS) for the delivery of services in an efficient and productive manner and ease of providing and distribution appropriate information to stakeholders
- Development of a state of the art GIS system

6.16.7.3 A detailed Benefits Register and Benefits Realisation Plan can be found at Appendix M20

6.16.7.4 The benefits have been reviewed during the procurement process and solutions to achieve the benefits were discussed with bidders during the Competitive Dialogue stage.

6.16.7.5 The Management Information system will be utilised to link reports and survey data to the benefits realisation plan in the form of dashboards to highlight to the Contract Management Team where benefits are being realised and where there are areas that have issues that need to be resolved.

6.16.7.6 Upon contract commencement the Contract Management Team's Contracts Programme Manager will be responsible for maintaining the plan. This will include monitoring of a Benefits Plan timeline to establish when specific benefits need to be reviewed. As milestones are met the benefits plan and register will be updated in order to identify if benefits have been achieved. The results of reporting the benefit realisation will be internally discussed within the Contract Management Team. Upon agreement this will then be shared in the monthly Project Board and Member Review Board which will subsequently be raised at the Highways PFI board where applicable.

6.16.7.7 The Contracts Programme Manager will update and amend the register

following the review boards and highlight how the benefits have been achieved or where actions are still required to achieve the benefit realisation.

- 6.16.7.8 The Benefits Realisation plan will continue to be managed for the duration of the Contract with the responsibility remaining with the Contracts Programme Manager who will use support from the rest of the Contract Management Team, Advisors, Service Provider and Independent Certifier as required. The plan will be reviewed monthly and will be monitored more frequently via the Management Information and the dashboard system contained within.

6.17 Risk Management Strategy

6.17.1 Risk Strategy

- 6.17.1.1 A risk management strategy has been developed for the Project designed to manage those risks which could impact the Project between the OBC stage and financial close. This will have enabled effective risk management during the procurement process and will continue to inform the risk consideration during the Contract Management phase.
- 6.17.1.2 To support the implementation of the risk management strategy, a number of risk workshops have been held facilitated by the Risk Workstream Lead and attended by the Project Team (including the external advisers) in order to:-
- Agree a common approach to risk within the project (in accordance with the risk management strategy)
 - Identify and assess the main risks including an initial allocation and proposal of a risk action plan for each material risk exposure.
- 6.17.1.3 The key outcome of these workshops was the establishment of the risk register for the Project (see Appendix M21).

6.17.2 Project Risk Register

6.17.2.1 The Project Risk register, records those risks which could impact the project (in the development, procurement and close-out phases). This includes both risks which impact the IWC's current highways operations, and risks which could impact the project through procurement and into contract award. For each risk, the register records the nature and potential impact of the risk exposure identified, its significance in terms of both likelihood and impact and, for each material exposure, a target exposure level and risk action plan detailing countermeasures in progress or planned to achieve that target level. Within the register, a Risk Owner has been identified for each risk and associated risk action plan. The Risk Owners take full responsibility for the management of the risk and have nominated risk managers reporting to them. The responsibility for managing the risk rests with Risk Owners and they report back to the Programme Director who reviews the progress with the Project Team and the Project Board. The register focuses attention on the 'current' risk level and the 'target' level; when the risk action plan has been successfully implemented, the current level will then be reduced to the target level. The target level represents the accepted level of risk; whilst measures could be designed and implemented to reduce the risk level further or towards the 'residual' (or unavoidable) risk level, it is anticipated this would be uneconomic. The register is divided into the key phases of the Project – procurement and award, Contract Phase, financial and commercial.

6.17.3 The Strategic Risk Register

6.17.3.1 The successful completion of the Project represents a major investment and is key to the achievement of the IWC's corporate objectives. As a consequence of this, the potential failure of the Project is a risk captured within the IWC's strategic risk register. This, in common with the IWC's other strategic risks, is reported to and monitored by the IWC's Directors Team and Cabinet.

6.17.3.2 The strategic risks were monitored by the SRO and Programme Director and their mitigation has allowed the Project to successfully move forward. As the

procurement process has progressed towards financial close the strategic risk for the delivery of this project is as follows:

"Failure to successfully complete the Highways PFI project by establishing an effective 25year service delivery contract."

- 6.17.3.3 This risk summarises, at the highest level, the risk profile of the Project reflecting the more detailed risks within the Project risk register. The most significant risks are reported monthly to the Project Board. As part of their standing agenda, the Project Board considers these and any shift in the Project risk profile.

6.17.4 Risk Escalation

- 6.17.4.1 Where a significant shift has been identified in the level of exposure (through, for example, the identification of a new risk, the material reassessment of an existing risk or the delayed completion or other failure of a risk action plan to produce the anticipated mitigation) this will, subject to materiality, be escalated through:-

- Workstream leader reports it through one-to-one meeting with Programme Director or raised it at a Project Team meeting,
- Risk Workstream Leader and/or PFI Programme Director highlights this in the Project Board risk report, or
- Updating the risk within the IWC's Strategic Risk Register.

- 6.17.4.2 Within this process, the criteria for escalation will be either a significant change in the risk assessment (for example, from 'medium' to 'high') or a material delay or other failure of the risk action plan.

6.17.5 Risk Methodology

- 6.17.5.1 At a more detailed level, using a risk management methodology based on

the IWC's risk management practices, each risk has then been assessed on the basis of both likelihood and potential impact (including, among others, both financial and reputational impacts). These have then been combined into a single overall assessment of each risk at the current level and at a target level (taking account of the actions planned to mitigate that risk). The assessment process uses a scale of 1 to 4 as shown in Figure 53 (1 being low and 4 being high) for likelihood and impact and these are combined to give an overall assessment for each risk on a 1 to 16 scale:-

Likelihood/Probability	V Likely 4	4 Low	8 Medium	12 <u>High</u>	16 <u>High</u>
	Likely 3	3 Low	6 Medium	9 Medium	12 <u>High</u>
	Unlikely 2	2 Very Low	4 Low	6 Medium	8 Medium
	Remote 1	1 Very Low	2 Very Low	3 Low	4 Low
	Scale	Low 1	Medium 2	High 3	Major 4

Figure 53 - Risk Ranking Matrix

6.17.5.2 For each risk, a risk action plan has been drawn up in conjunction with the workstream leader (i.e. the owner of that risk) and this represents the process to be followed to reduce the risk exposure to the target level. Progress is tracked against the risk action plans particularly in respect of the high level risks.

6.17.5.3 An allocation decision has then been recorded against each risk with one of

the following three markers:

- Retained by the IWC
- Shared
- To be transferred to the Preferred Bidder.

6.17.5.4 The risks have been allocated to the party deemed best able to manage each risk at the lowest cost. Clearly those risk allocation decisions have been continuously reappraised and informed through the procurement phases of the Project.

6.17.5.5 The risk identification, assessment and allocation decisions have been validated through:-

- the operation of a series of risk workshops and other risk considerations undertaken by the internal Project Team, and
- a validation review by the IWC's external professional advisors to the project who have significant commercial expertise and previous experience in the PFI field.

6.18 Summary

6.18.1.1 The IWC is confident that through a programme of considered project management and stringent project governance, the Project and the Preferred Bidder are in a position to deliver a successful long term project. The Project will deliver clear beneficial outcomes to the Island and its community, the progress of which will be appraised regularly by the Contract Management Team. The realisation of these benefits will also be seen through the delivery of continuous value for money monitoring.

6.18.1.2 The Contract Management Team has developed a strong understanding of and commitment to deliver the requirements of the Output Specification and

Project Agreement to the Island. The Contract Management Team and Preferred Bidder will form a robust working partnership with clear governance and monitoring to ensure the project delivery focuses on delivering a high quality service to the programmed plan. This will be supported by the detailed and considered stakeholder management and public engagement that will endeavour to foster strong community links through education, professional forums, clear public information and open dialogue with Town and Parish Councils.